Accountancy

ESTABLISHED 1889

ACCOUNTING · MANAGEMENT · FINANCE

Standard Procedure for Agricultural Accounting

•

Conversion to a Private Company

•

The Unendorsed Cheque

THE SOCIETY OF INCORPORATED ACCOUNTANTS

MARCH 1955 *TWO SHILLINGS*

The Society

of

Incorporated Accountants

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Professional Notes

The Revenue's Year

THE NINETY-SEVENTH annual report of the Commissioners of Inland Revenue (Cmd. 9351) continues to provide the feast of statistics on the financial operations of companies inaugurated in the 94th report. Unfortunately, this year, for some unstated reason, the analyses of costs and changes in stocks "have had to be omitted." Further changes of a classificatory nature and a few very minor alterations of definitions of profits and tax deductions have also been made. Quite apart from the loss of information, changes of the latter type, however small, are to be deprecated, since they affect the comparability of the data over a period of years. The Revenue deserve praise for the high quality of their report and it will be a pity if there is any tendency to reduce the information given. The only new table this year provides an analysis of sur-tax incomes by country of origin within the United Kingdom. As would be expected, 90 per cent. are received by the inhabitants of England and Wales, rather less than 9 per cent. by Scots and the remainder in Northern Ireland. The distribution by income size within the three countries is almost identical.

The table showing depreciation allowances as a percentage of gross profits for individual industries is repeated; it is based upon the individual breakdowns of profits for the various industrial groups. Total assessments in 1952–53 were £3,512 million, of which £720 million was granted in depreciation allowances. The latter includes the initial allowances as well as wear and tear plus obsolescence and balancing charges. The value of these particular data is not great since no information is available relating to the assets employed in the separate

industries or their original cost or age. At worst, it is perhaps a little disturbing that in many industries the depreciation allowed—even on the admittedly unsatisfactory basis of original cost—represents so high a proportion of the profits earned.

The "steady growth of staff with progressively increasing experience" is undoubtedly paying dividends. The number of cases of under-assessment of profits discovered last year was 18,144—virtually double the figure for 1953. The total charge raised, including penalties of £7½ million, was £20.3 million as against £11.0 million in the previous year. Prosecutions rose from sixty to seventy-four over the last two years, the latter including the case of one reluctant taxpayer who assaulted the Collector. Perhaps it is as well to entrust one's tax affairs to the professionals!

War Damage Payments

PAYMENTS BY THE War Damage Commission during 1954 amounted to £32 million (of which £19 million related to Greater London), compared with £38 million in 1953 and £57 million in 1952. The average individual payment, however, rose to £700 in 1954, compared with £500 in the previous year and £410 in 1952.

Property owners' war damage contributions during and after the war amounted to nearly £200 million. The Commission has now paid out a total of £1,147 million in 4,650,000 separate payments. Some individual items are: St. Paul's Cathedral, £98,000; Guildhall, City of London, £211,000; Inner Temple, £412,000; Middle Temple, £104,000; The Old Bailey, £181,000; Incorporated Accountants' Hall, £107,800.

Procedure of an Accountant's Office

HAS A PRACTISING accountant ever engaged an independent firm of accountants to review the records and procedure of his own practice? This question was asked by Mr. J. T. Koelling when he read a paper on practising accountants' records and office procedure, at the last annual meeting of the American Institute of Accountants. But Mr. Koelling rejected his own provocative idea; it appears that accountants in the United States, as in this country, are noted for being "rugged individualists!" Every firm has its own views on how time should be recorded, how jobs should be costed and how clients should be billed.

On the important question whether the cash or accrual basis of accounting should be used, Mr. Koelling said that most accountants employed the accrual basis. Their clients in other professions, however, seemed to prefer the cash basis, advancing very cogent reasons—often not unconnected with taxation—for their preference. Many accountants went even further than the simple accrual method, applying "a so-called standard billing rate to their work-in-progress, thus recognising the profit derived from their work as it progresses," but Mr. Koelling felt that the "completed job" method was more correct.

Opinions differ, in the United States as here, on whether records should be in terms of time or money. Similarly, there are differing views on whether costings should be based on actual salaries paid, reduced to an hourly rate, or whether all individuals of the same classification should be billed at the same rate. Mr. Koelling said that his own firm used four group classifications. Our own opinion is that actual salary paid is the better basis, except when an elderly member of the staff is paid a salary which to some extent contains a pension element.

It is surprising that a quite large section of the paper was devoted to a discussion of the question "Should each engagement be costed?" The Certified Public Accountants' *Handbook* on the subject remarks that very few accountants maintain records of time accumulation on the basis of salary costs incurred. Mr. Koelling commented:

> Perhaps those who employ the costing procedure are only doing more precisely on each engagement just about the same thing as the standard rate proponents are doing with respect to their entire practice. The cost of operations plus a provision for profit determines the standard rates and by maintaining them in the proper relationship to salary and overhead costs it is possible to exercise the requisite degree of control over the practice. Since many factors other than actual cost of the engagement are taken into account in fixing the amount of the fee, there is a question of whether the expense of maintaining a cost system is justified.

One may perhaps express strong disagreement with this argument. Until the actual costs have been determined, the other factors cannot be considered.

After describing the method used by a particular firm—a method which seemed in many ways to be unduly complicated—Mr. Koelling discussed the "organisation of the billing procedures." His most important point was that a definite time must be devoted to conferences between principals and supervisors on this very important subject: it must not simply be left to a time when there is nothing else to do!

Training of Accounting Staff

AT THE SAME meeting of the American Institute, Mr. Harold L. Child presented a comprehensive review of methods of staff training, particularly of small local firms. He divided the training into individual study, "on-the-job" training and instruction classes.

Mr. Child dealt in some detail with the American Institute's rule of professional conduct No. 16 which reads "a member shall not violate the confidential relationship between himself and his client," pointing out that this rule applied to all members of the practising accountant's organisation.

He then commented on what the junior audit staff should and should not do. They seem to be somewhat more precocious in America than in this country, as one injunction states "under no circumstances should a staff assistant institute changes in the accounting system or instruct the client's employees to make changes in their work routine!"

It appears from the emphasis placed in the paper on the difference between theoretical book-keeping

and its practical application that many trainees, who go into the accountancy profession in America "with a reasonable amount of academic training," have a theoretical knowledge which for some considerable time will be far in advance of their practical abilities. To a British accountant, used to methods of training in which theory and practice go hand-in-hand, this seems a serious defect of the American system. Mr. Child himself pointed out that the best training is "on-the-job" training, in which the junior works with a senior from start to finish on an auditing engagement.

One unusual suggestion was that the staff should have special penmanship instructions so that they would write legibly and clearly on working papers. Another visualises a weekly class of one hour for all the staff—including the partners! An American firm was said to present "indoctrination information and instructions to beginner employees through tape recordings dictated by a partner." It certainly appears that the instruction of beginners, qualified staff and partners is taken much more seriously in the United States than in this country.

Society Dinner

THE COUNCIL OF the Society of Incorporated Accountants announces that a dinner will be held at Incorporated Accountants' Hall on Tuesday, March 22, 1955. Applications from Incorporated Accountants to attend this dinner should be sent to the Secretary of the Society and will be dealt with in order of receipt. Each member may invite one personal guest, but the size of the Great Hall imposes a maximum attendance of one hundred. The price of tickets will be £2 12s. 6d. per head, inclusive of wines, etc. Further details can be obtained from the Secretary of the Society.

Proposed Abolition of Capital Issues Control

THE FEDERATION OF British Industries, in a recent memorandum to the Chancellor of the Exchequer, suggests that in present economic and financial circumstances the appropriate private institutions could be relied on to achieve the declared objects of the control of capital issues by the Treasury—determination of the order of priority of issues according to their importance in the national interest, and the preservation of orderliness and avoidance of congestion in the capital market.

The Federation recognises the problem of issues involving remittances outside the Scheduled Territories, but considers that the balance of payments can be safeguarded through the mechanism of exchange control.

It is pointed out that in the first nine months of 1954 the Capital Issues Committee rejected only 51 out of 1,582 applications. Even if some potential applicants are deterred by the belief that consent would not be granted, it is generally true, the Federation states, that the need to obtain the committee's consent is a formality. But it gives rise to needless delays and necessitates circulation of confidential details.

The Federation therefore recommends the immediate ending of direct control by the Treasury of capital issues. It suggests that the Capital Issues Committee be retained in order to advise the Chancellor from time to time on general policy and to enable Government control to be resumed if necessary at some future date.

Counting the Wholesalers

TOWARDS THE END of January there appeared the third and final volume of the 1950 Census of Distribution, which covers the wholesale trades (*Census of Distribution and Other Services, 1950, Volume III—Wholesale Trades*. Her Majesty's Stationery Office, 15s. net.). The wholesaler as defined for census purposes may operate on his own account or on commission; he may operate at home or abroad or both; his main business may be to provide warehouse accommodation; or he may even be a part of a marketing board, nationalised industry or Government trading Department, or a manufacturer whose distribution services can be isolated. The report shows a total of some 55,700 wholesalers with total sales of £13,000 million in a period rather later than the calendar year 1950. The largest part of this total, not far short of £4,000 million, went to industrial users and a block of £3,000 million to retailers, including grocers, buying direct through wholesale channels. A further section of under £2,000 million was exchanged between one wholesaler and another, while as much as £143 million was sold to the public direct. A vast amount of information is given about each class of wholesaler, the bases of classification including method of trading, kind of business, and geographical location by standard regions, with more detailed location in the case of certain conurbations. There is also a classification by turnover. Finally a number of percentage figures are given showing what proportions gross profits, wages and salaries and transport cost bear to total receipts. It is interesting to note that transport charges vary from a fraction of 1 per cent. to over one-third of the whole of gross receipts.

Gift Section in Society's Library

THE LIBRARY AT Incorporated Accountants' Hall is an essential part of the facilities offered by the Society to members, students and other persons interested in the subject of accounting. Good use is made of the considerable number of works on accounting and cognate subjects housed in the library, but the Library Committee is concerned to improve and extend the collection. One of its aims is to build up a first-class reference library, which can be consulted by anyone in the knowledge that it contains a really authoritative collection of books.

There has been formed, as part of this reference library, a "Gift Section" to contain presented books. It is hoped that the new section will be built up to form an attractive and important part of the reference library. Books recently presented by two members of the Council of the Society, Mr. Edward Baldry and Mr.

Richard A. Witty, have been placed in the section. Members of the Society and others wishing to ensure that their own books are carefully preserved to the general benefit of the profession may be encouraged to give books to the section. A permanent record of the names of those presenting books, together with the title of the works presented, will be displayed in the Gift Section, and the name of the donor will be inscribed in each volume.

Those who would like to make presentations of rare or up-to-date books are invited to write in the first instance to the Secretary of the Society informing him of the titles of the books they wish to present to the library.

Shares of No Par Value

"FROM THE STANDPOINT of logic and common sense Her Majesty's Government are satisfied that a strong case has been made out for the alteration of our company law so as to allow companies to issue Ordinary shares of no par value if they wish to do so. The present nominal value system seems to the Government to be fundamentally illogical." This statement was made by Lord Mancroft, Joint Parliamentary Under-Secretary of State for the Home Department, in replying to a debate in the House of Lords initiated by the Earl of Cromer. But Lord Mancroft was unable to hold out any hope of legislation during the present session, because of the complexities of the numerous amendments to tax law which would be required. When the necessary Companies Amendment Act had been passed to give effect to the majority report of the Gedge Committee on Shares of No Par Value, its operation would have to be postponed to allow alterations to be made in the Finance Bill to the basis of the companies capital duty and to various provisions relating to income tax, sur-tax, profits tax and estate duty, all of which would take a considerable amount of Parliamentary time.

Lord Mancroft noted that the majority report was supported by a striking consensus of professional and commercial advice, and almost unanimously in the national, the professional and the technical press. The opposition of the Trades Union Congress was based upon a fallacy. There was need for much more explanation of these matters to the workers in language which they could understand; and those who held some of the views expressed in the minority report perhaps needed education in elementary economics. The no-par-value system, far from camouflaging the payment of excessive dividends, would by abolishing misleading percentages help to remove misunderstanding and misrepresentation.

The Association and Absorption

AN EXTRAORDINARY GENERAL meeting of the *Association of Certified and Corporate Accountants* was held on January 24 to consider a special resolution authorising the Council to admit to membership of the Association under certain conditions selected members of the *British Association of Accountants and Auditors*, the *Faculty of Auditors* and the *Association of International Accountants*. The issues involved in this absorption scheme were commented upon in the January issue of ACCOUNTANCY (page 7).

The result of a poll was 3,241 votes in favour and 1,295 against, and the resolution was accordingly declared lost, since it failed by 161 votes to secure the necessary three-quarters majority.

Choosing a Company's Fiscal Year

THE AMERICAN INSTITUTE of Accountants advises companies to base their fiscal years on their natural business years, and wherever possible to avoid the practice, so prevalent in the United States, of using the calendar year for the purpose. The case for the natural business year is set out in a pamphlet issued by the Institute, *Do You Close Your Books on New Year's Eve?*

The natural business year is defined as the annual cycle of activity ending when inventories, receivables and loans from banks are at their lowest point. At that time employees are least busy; the balance sheet will show the most liquid position (a help in getting bank credit); the income statement covers an actual cycle of the business; each year's accounts are available when plans are being made for the following year; the smaller amounts of inventories and accounts receivable will reduce the area of possible dispute over tax returns; and accountants will be able to render service more effectively when not in the midst of calendar-year auditing. A company which decides to change its fiscal year is advised to consult its accountants and attorneys on transitional problems, but these are not numerous.

The pamphlet also explains the advantages of dividing the fiscal year into thirteen periods of four weeks each.

Single copies of the pamphlet are available without charge from the Natural Business Year Committee, American Institute of Accountants, 270 Madison Avenue, New York 16, N.Y., U.S.A.

Shorter Notes

Extending the Legal Aid Scheme

Facilities for giving legal advice, already authorised by the Legal Aid and Advice Act of 1949, should now be made available, it is strongly urged by the Lord Chancellor's Advisory Committee. The need is made more urgent, it says, by the passing of the Landlord and Tenant Act and the Housing Repairs and Rents Act. These Acts will also cause many more cases to be brought in the county courts and legal aid should be available for them.

British Institute of Management

Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A., Vice-President of the Society of Incorporated Accountants, has again been appointed a member of the Council of the British Institute of Management. Sir Richard retired from the Council some time ago, when under the rules he was not eligible for immediate re-appointment.

EDITORIAL

Green Light for Railways?

EVER since the present Government rejected the policy of complete co-ordination of road and rail transport, it has been evident that something substantial would have to be done for the railways if they were to pay their way. One essential change in policy was to permit the railways to submit maximum charges for all freight, with power to vary rates in their sole discretion below those maxima, instead of declaring rates applicable to all those who wished to use any given type of traffic. The second step was to allow it to be understood that a reasonable scheme of capital formation would receive favourable consideration. Both the schedule of maxima and the capital scheme have been submitted. While it will be many months before the former has been approved, with or without amendment, the capital plan seems to have received approval, at least in principle.

The publication of the capital plan followed on the heels of the full report of the Court of Enquiry into the dispute between the British Transport Commission and the National Union of Railwaymen, and it is really not very useful to study one without the other. The final report pays appreciably more respect than did the interim one to the doctrine that nationalised industries must keep normal commercial considerations in mind: it is now conceded that, if the raising of rates of pay creates a position in which it is impossible to implement whatever interpretation the B.T.C. place on the concept of paying one's way "taking one year with another," then a refusal to grant increases may be right. Nonetheless the Court formed the opinion that wage rates were probably too low. However, there was no sign that the Court realised that ability to pay ought to be taken into consideration and there has not, so far, been any very clear indication of just how wages in excess of profits earned are to be covered. But the Government have clearly stated that there will be no subsidy and it appears to be assumed that a short-run deficit is not a matter of great importance. No one has carefully defined what is meant by "short-run," but the general intention appears reasonably clear. It is that when the fruits of capital outlays are gathered and the lines are working under a new scheme of maximum charges the railways system will be able to make ends meet.

This solution appears to assume both some rise in rates—and possibly fares—in the short run and a gradual redeployment of railway labour in such a way as to eliminate a great deal of the existing redundancy. While disputes with some of the railwaymen on the immediate rise in wages continue, it appears to be the case that the N.U.R., at least, have conceded the need for reforms if higher wage rates are to mean a real rise in living standards for their men.

The plan for modernisation and re-equipment, which is certainly long overdue, is a fundamental element in raising efficiency to a level at which satisfactory wage rates can be paid; but it may well, in the short run, exacerbate the problem of redundancy. The essentials of the plan are (*a*) the electrification of certain London Midland and Eastern Region main lines and of certain suburban lines and an extension of the Southern scheme; (*b*) the substitution of diesel for steam on many main line and shunting locomotives; (*c*) the fitting of continuous braking systems to all freight wagons; and (*d*) the modernisation of many stations, depots and marshalling yards, with the extended use of colour-light signalling, track circuits, automatic train control and power-operated signal boxes. The whole cost of the plan is to be £1,200 million spread over fifteen years, which is £80 million yearly or about double the present cost of maintenance, while the estimated return on the investment is at least £85 million per annum. Of the total, electrification and diesels will cost some £345 million, stations and passenger vehicles some £285 million, marshalling yards, continuous brakes and other goods traffic improvements some £365 million, and track and signalling charges some £210 million. Two-thirds of the total amount will have to be raised from the public and this will be done under the protection of a Treasury guarantee.

Of the estimated return of £85 million about two-thirds will be absorbed by interest charges and additional depreciation, and if one can assume that the lines will be covering their costs before any of these investments begin to bear fruit—a large assumption—that will leave a little over £25 million a year to strengthen reserves and effect further improvements. The authors of the plan express the view that the results might be very much better than the figure of £85 million, which is advanced rather tentatively as a minimum. It must, however, be some years before any of the schemes yield much fruit and it must be remembered that the new equipment will only yield higher dividends if it is used to full advantage.

The plan means that we are within sight of the end of the age of steam on the railways. It also means that the handling of freight and freight wagons will have to be speeded up materially, while it is a necessary concomitant of some of the reforms that many of the less remunerative stations, and some of the branch lines, will be closed. This seems to mean that many railway workers will be obliged to adjust themselves to new types of work and that new labour, possessing considerable and varied skills, may have to be recruited. Of course the plan is to take fifteen years, and may well take longer, but a great deal more than a new look will have to be imparted to the railway staff if the change is to produce the abundant success which conditions demand. If the plan appears revolutionary it is because transport has been shockingly neglected in the post-war years.

Towards a Standard Procedure for Agricultural Accounting

By S. V. P. CORNWELL, M.C., M.A., A.C.A.

IT IS A curious fact that the remarkable developments in accounting which have taken place since 1945 in other industries have found no parallel in agriculture. The explanation is certainly not that agriculture is better placed than other industries to take the risk of doing without adequate accounting. The increased amount of fixed capital required, the proliferation of subsidies, the continuation of agricultural executive committees, the accusations of "feather bedding" and the rise in labour and other costs might have been expected to lead to improved methods of agricultural accounting—and yet there has been no appreciable response. Furthermore, the agricultural community has recently enjoyed one advantage denied to most other industries: provision, at the Government's expense, of advice upon technical and management problems through the medium of the National Agricultural Advisory Service. And still it is true that farm accounting generally is now where it was in 1939. For instance, the impact on agriculture of the report of the Productivity Team on Management Accounting appears to have been less than on any other major industry.

The objects of this article are to examine the causes of this lack of improvement, to propose remedies, and in particular to suggest a form of standard accounting for agriculture that might be susceptible of widespread adoption.

Why Has Agricultural Accounting Lagged?

The first reason why accounting in agriculture has not improved is the false emphasis noticeable in such expositions of agricultural accounting as have been published since 1945. The few authoritative text books published appear to have been composed principally for the benefit of students of Agricultural Colleges, and to be directed at giving them an elementary knowledge of the ideal farm accounts.

The tendency both of the textbooks, and of the agricultural economists, is to try to make the farmer an accountant. But this is exactly the opposite of what has been happening in most other industries, where the emphasis has recently been on making accounting statements readily comprehensible to those without a specialised accountancy training. That is to say, whereas in industry the accountant has since the war been compelled to present his results in the form that an ordinary director can understand, in agriculture only has the stress been on instructing the farmer how to keep accounts rather than instructing the accountant on presenting the results in a form intelligible to the farmer.

It is fair to say that both the professional accountant and the agricultural economist—those, at any rate, who have appeared in print since 1945—agree in supposing that the average farmer, who hates paper work anyway and already suffers from far too much of it, can by the simple process of reading a textbook be turned into an embryo accountant or into somebody capable of understanding a comparative cost statement.

It follows that the first step in improving agricultural accounting is to jettison the idea that the average farmer wants to be an accountant, and to follow the example of other industries in persuading the accountant to present his conclusions to the farmer in a form that the farmer can understand.

The second reason why accounting practice in agriculture has not developed lies in the unfortunate fact that far too often the first, and indeed the only, consideration in the mind of the farmer and the professional accountant when dealing with the accounts has been taxation. Generally the farmer has consulted the accountant purely in order to obtain settlement of his taxation liabilities: and therefore he associates the accounts with the unpleasantness of paying tax and naturally wants to incur professional fees as small as possible. The professional accountant, knowing that the accounts are only for taxation purposes, and that the expense of preparing them is likely to rank large in the farmer's eye, has tended to "throw together" the accounts purely in order to keep the Inspector of Taxes quiet, and with no idea that the accounts could be of any help to the farmer in managing the farm.

The third reason is to be found in the development of the National Advisory Service itself: it is to be feared that too many advisory officers have been too interested in the purely technical problem of maximising production without any regard to the economic consequences in the sense of the financial profitability to the farmer whom they are advising.

What then are the remedies?

Suggested Steps

There is obviously no single remedy which will rectify this position immediately: but it is suggested that a very substantial improvement could be effected if the following two suggestions were adopted.

First, the Ministry of Agriculture should encourage a

change in the attitude of the officers of the National Advisory Service. They should regard themselves less as purely agricultural production experts and very much more as agricultural economists proper. That is to say, instead of giving advice as to how for instance the yield of an individual field may be increased—advice of a kind which, though perfectly correct, can in isolation be very dangerous—the advisory officer should regard his primary function as being what is perhaps best described as that of an interpreter. This function would have two aspects:

(i) The analytical aspect: where the farmer can produce his own results and accounting material showing his own past standards of achievement, the advisory officer's function would be to pick up where the farmer leaves off, to do the awkward job of comparing these standards of achievement with either national or local statistics in the light of the Advisory Officer's own expert knowledge and making the necessary deductions.

(ii) The constructive aspect: to advise a farmer on the probable profitability or otherwise of changes in his farming policy.

Now any advice under this second head should start from the existing level of costs on the farm concerning which the advice is being given. Farming costs are far less variable in the short term than is commonly supposed, and advice on future policy which might give an excellent result on one farm would merely result in a loss on another, even where the purely natural conditions are similar, simply and solely because the existing level of costs, to which the two farms are respectively committed, differ widely.

It is suggested that the correct approach for the National Advisory Service officer is to start from the existing level of costs on the farm, and in particular to have, initially, regard to the following items: labour cost, effective utilisation of existing capital assets including machinery—in accounting terms, to cover depreciation charges—and rent or net annual value. Any production programme which ignores these factors is, from the point of view of *profits*, worthless.

Lack of appreciation of this point appears to have been a factor contributing to the widespread feeling among farmers that the advice of too many National Advisory Service officers is unrealistic. Put in another way, the amount of capital locked up in farm implements and machinery, the amount of labour available, and in particular the availability of accommodation for labour are, or ought to be, factors as much to be considered by the farmer in making his plans as the rotation of the crops or the state of the land.

If the National Advisory Service officers did become "interpreters" in this sense, it is the author's opinion that such a development would make detailed paper work by a farmer less and not more necessary, because the amount of detailed records which are recommended in the present authoritative farming treatises would not, in the normal case, be required. And provided reasonable financial records were available on the lines discussed below, an expert interpretative opinion could (and indeed in the author's experience can) readily be given in the usual case.

The second suggestion is that this development should be accompanied by a widespread effort by the farmer and his accountant to reach a minimum standard of accounting sufficient to enable the National Advisory Service officers to fulfil the above function.

Publicity would obviously be necessary: but at least it would be changed from the unsuccessful publicity of the past, which too often tried at once to popularise the National Advisory Service officer as some sort of agricultural Stakhanovite, and to make farmers into accountants as a spare time occupation.

It would be as well to emphasise at this point that the improvement of accounting practice in agriculture is not an end in itself, but merely a means to assist management. It follows that both the remedies referred to above must go hand in hand—unless the accounts are going to be of more general help to the farmer in running his farm, it is to be expected that they will show no improvement over the present standard.

If proof of this were needed it is necessary only to look at the experience of France in the nineteenth century. That country enjoyed a succession of outstanding treatises on agricultural accountancy—as a matter of interest most of them bewailed the complete failure of French farmers to adopt their ideas—which was unhappily accompanied by a complete absence of progress in French agricultural management. Therefore, the development of the pure theory of agricultural accounting remained almost entirely without practical effect.

The Accounting Requirements

Once the dual nature of any improvement is accepted, then in all but the exceptional case the minimum requirements to enable accounts to be used as a tool of management as well as a measuring rod for taxation are far more simple than is generally realised: and in succeeding paragraphs an attempt is made to examine what would be demanded of the farmer and the accountant respectively if a more or less standardised form of "management accounts" for farms were to become a practicable possibility.

From the farmer's point of view only three commitments are involved.

To state first the one that would be most difficult to enforce:

(i) To pay all items of expenditure by cheque, with the exception of "minor outgoings." The definition of a minor outgoing is not "petty cash" in the textbook sense, but that weekly amount which, having regard to the size and nature of the farm, the accountant can persuade a tax Inspector to pass as being reasonable petty cash outgoings not recorded in detail. This is essentially a tax problem: and the right approach to the farmer is, that if he does not restrict his weekly cash payments to such a limit he will probably pay more tax than necessary anyway.

(ii) To bank all takings, and to keep a record—if

necessary in the paying-in book—of the nature and source of such takings.

(iii) To make, annually, some positive arrangement with his accountant for a proper valuation of stock-in-hand. This is an important but regularly overlooked point, which is examined in greater detail below.

These are the minimum requirements. It is, of course, a help to the accountant if an analysed cash book can be kept and if vouchers in some sort of order can be retained, but these are not essentials. Opinions will probably vary on the practicability of laying such obligations on the average farmer: but it can at least be claimed that they are much simpler and less onerous than the usual textbook recommendations to the farmer on accounting.

From the point of view of the accountant, it is clear that an accountant preparing an ordinary set of farm accounts would usually treat them in the same manner as other cases of incomplete records, and in particular would plan his analysis of income and expenditure in the light of four factors:

(i) The time and expense involved;

(ii) His idea of what the farmer would like;

(iii) The minimum which he thinks the Tax Inspector will accept;

(iv) His own subjective idea of what farm accounts ought to look like.

The alterations, to such a programme, that would be necessary to make the farm accounts an efficient tool of management are less formidable than might be supposed. They are:

(i) To *insist* that the farmer's bankings are recorded in sufficient detail to analyse:

(*a*) Livestock receipts, by categories of livestock, for example, cattle, pigs, poultry.
(*b*) Crop receipts, by types of crop.

(ii) To obtain from the farmer and to incorporate in the accounts a reasonable estimate of produce of the farm consumed on the farm (other than transfers to the farmhouse). This is less of a difficulty than might appear as, in the ordinary case, it will *not* be necessary to deal with manure provided by the livestock for the land, though it will apply to crops fed to the livestock.

(iii) To accept a minimum standard of analysis of expenditure which would require to cover the following heads:

Labour;	Seeds;
Foodstuffs;	Fuel;
Rent;	Equipment hire;
Livestock by types of animal;	Transport and miscellaneous;
Fertilisers;	Implements and machinery.

This list is in the usual case adequate, with the provisos that some authorities also like electricity and veterinary expenses to be individually analysed, and that the separate problem of implements and machinery is examined below.

The point is that this minimum analysis of expenditure will achieve two objects:

(*a*) It will enable the results of the farm to be compared by the National Advisory Service officer, or the farmer himself, with the Ministry of Agriculture's annual analysis of farm incomes and expenditure and with the reports on farming issued by such organisations as the School of Agriculture, Cambridge, and more particularly, with the efficiency standards and factors contained specifically in the latter and implicitly in the former.

(*b*) Where there are special farming enterprises in operation, it will form a basis upon which particular calculations of costs and so on, relevant to the special enterprises, can be made.

The heads of analysis can naturally be altered by the accountant, as desired either by the farmer or the National Advisory Service officer, to suit any special policy or circumstances. Where the alteration desired is proposed by the National Advisory Service officer, and the above system is in operation, it is merely a request from one technical expert to another and need not be any burden on the farmer himself. It is the author's view that such commitments, if undertaken by the accountant, involve little more analysis than is obligatory, from the taxation point of view, on a conscientious accountant—to ensure, for example, that items of private expenditure are not passed through the farm accounts. Where the farmer can be persuaded to maintain a separate farm banking account the problem of preparing accounts, both from the point of view of management accounting and taxation, is simplified. But where the farmer declines to maintain separate bank accounts, it is no more difficult to prepare management accounts than tax accounts.

Procedure on Stocktaking and Valuation of Implements

In considering the commitments of the farmer and the accountant, there are two other matters of importance in which a standardised annual procedure is invaluable.

Annual Stocktaking—The first essential in a satisfactory procedure is that a good liaison should exist between the farmer, the accountant, and the valuer if one is retained.

The next step is to consider whether the Inland Revenue concession whereby (in practice) when a normal valuation of tillages, unexhausted manures and growing crops does not exceed £700, a certificate will be accepted that the value at the beginning of the year did not differ materially from that at the end of the year, can be utilised and a *detailed* valuation be dispensed with. A decision upon this point is obviously controlled by the character of the farm: but if the valuation is to be done by the farmer, it is important that a distinction be maintained in the valuation between:

(i) the individual types of crop, and

(ii) the total of the other items listed above.

Secondly, consideration should be given to the valuation of livestock. If a valuer is retained, then two practical points require to be watched:

(*a*) The accountant and the valuer should work in close collaboration, and, if possible, the valuation should be done

actually on the accounting date. Otherwise, *inter alia*, the accountant's efforts to itemise debtors and creditors at the year end may well be vitiated by livestock movements between the accounting date and the date of the valuation.

(*b*) The valuation should distinguish the totals of the individual types of livestock.

If a valuer is not retained, then, provided numerical records of livestock are available—which is essential in any event for proper control by the farmer—the farmer and the accountant between them can usually arrive at a value which would be acceptable to the Inland Revenue, and significant from the point of view of operating results.

Lastly, under stocktaking procedure, practical experience has shown that implements and machinery and small equipment should be wholly omitted from the annual valuation (and should be dealt with as set out in succeeding paragraphs). The difficulty of persuading the valuer to omit this type of asset from his valuation is one of the practical stumbling blocks in the way of preparing significant farming accounts. An annual valuation of implements and machinery is not only useless for tax purposes, but in most cases is positively misleading from the point of view of operating results: this matter also is pursued below.

Implements, Machinery and Small Equipment—The author's experience is that quite unnecessary complications are introduced both in the textbooks and in practice. The following rules have worked successfully with a wide variety of Inspectors of Taxes and are considered to give sufficiently accurate operating results. It is only fair to add that they do not conform to the recommendations of some of the authorities on agricultural economics.

(*a*) The yardstick for the charging to capital or revenue of implements, machinery and small equipment should be purely arbitrary and should be fixed at £20 per implement. Anything over this sum is capitalised, anything less is charged to revenue. The figure of £20 can, of course, be varied according to the size of the farm and the complication of its equipment, but it has proved a very useful figure on a wide variety of farms, and has been regularly accepted by the Inland Revenue.

(*b*) No further valuation of the implements and other such items charged to revenue should be undertaken—they should be regarded as expended (and it follows under this system that replacements will similarly be charged to revenue as and when they occur).

(*c*) The implements capitalised should be maintained *by the accountant* on the lines of the ordinary commercial plant register—and for accounts purposes (as opposed to wear and tear for taxation) should be depreciated on the straight-line method over an estimated life roughly comparable to that assumed in the Inland Revenue wear and tear tables.

Thus accountants can charge up depreciation in the annual accounts without any reference to the farmer or to the valuer. All the accountant need do is enquire of the farmer if any capitalised implements have been scrapped, before they are completely written out of the plant register. (It is worth noting in passing that a farm is one of the few productive units where an annual "count" of implements and plant is both feasible and useful.)

Two Applications

In conclusion, it might be appropriate to focus these recommendations by showing their applicability to two current agricultural matters. It will be assumed for this purpose that the maxim of starting with the existing level of costs on the farm concerned is accepted.

The first matter is the pilot farm scheme at present being operated in Gloucestershire. Any pilot farm project in itself, and the utility of applying its results to neighbouring farms, are both greatly increased when either the pilot farm itself or the neighbouring farms have some adequate record of their past expenditure and their existing level of costs.

Secondly, if the above recommendations were accepted, it is suggested that the "ideal" result would arise if, as a consequence, an approach by a suitably equipped National Advisory Service officer to the problems of any existing farm were to be on the following lines:

(i) He would commence with the level of fixed costs and their allocation, for example, the labour force and tractor expenses. An aggregate of these fixed costs would give a certain minimum level of expenditure which had to be covered by income.

(ii) The next step would be a technical managerial problem. Starting from such considerations as the rotation of crops (the answer to a problem of this kind will be determined by the character of the farm) a list of variable costs based entirely on technical factors could be prepared, under such headings as fertiliser costs in terms of yields per acre, feeding stuffs in terms of gallons per cow, and so on. When these are related to the limitations imposed by the invariable costs and availability of fixed assets such as supply of land, labour and capital, a schedule of total costs could be drawn up for one or more years, giving total costs that would be incurred if each of several different farming policies were to be adopted.

(iii) The next step would be to work out an income budget sufficient to cover these total costs, having regard to estimated selling prices, subsidies, etc.

(iv) Finally—this, it is admitted, is perhaps idealistic where the ordinary farm is concerned—any increase in quality or volume over the budgeted output should show a high marginal profit. This could be controlled partly by alterations of the technical factors in paragraph (ii) above—for example, expenditure on different qualities of feeding stuffs or fertilisers—and partly by any extra effort by management or the labour force being directed to that activity on the farm where the highest potential marginal profit is available.

* * *

The author desires to conclude by expressing his acknowledgment to Mr. Stuart R. Wragg, M.A., of the Department of Agricultural Economics, University of Bristol, for valuable help and suggestions in the preparation of this article.

Conversion to a Private Company—Some Preliminary Considerations

[CONTRIBUTED]

ACCORDING TO THE annual reports of the Registrar of Joint Stock Companies, the number of private limited companies registered in 1953 was not materially different from the number registered in 1938. It seems probable, too, that the proportion of companies formed to take over established businesses did not vary greatly in those years. In 1938, however, there was less hesitation about recommending the conversion of a business to a private limited company than there is today. The incidence of present day taxation, particularly, is such that careful thought needs to be given to any proposal to convert a business to a private company. The taxation repercussions might prove onerous, especially if the company became a controlled company within the meaning of Section 256 of the Income Tax Act, 1952.

Textbooks generally put as the first advantage of conversion the fact that the liability of a member of a company for its debts is limited to the nominal value of his shareholding, whereas the liability of a sole trader or partnership extends to his private as well as to his business assets. If a business is well-established and prosperous, however, limited liability is not immediately important—though it might be later if additional share capital is required—and one would scarcely recommend the proprietor of a business to convert it to a limited company as a means of avoiding his obligations to his creditors.

An important advantage of incorporation arises from the corporate and continuing nature of the company. The death of a member of a company does not terminate its existence. This quality of continuity is a valuable feature of incorporation and avoids many of the difficulties which might arise on the death of the sole proprietor of a business or of a partner in a business.

Once a business has been incorporated, it must be carried on within the framework and subject to the control imposed by the Companies Act, 1948. Directors have to be appointed to carry on the business, and they must act within the restraints imposed by the statute and the memorandum and articles of association of the company. A secretary has to be appointed, meetings of directors and an annual general meeting of members need to be held, minutes of meetings kept, various returns filed with the Registrar of Companies and particulars of any mortgage or charge on the assets of the company registered with him. More important from the accountant's standpoint is the requirement that companies must keep proper books of account as defined by Section 147 of the Act, and in default of so doing the directors are liable to penalties. This is a useful lever in the hands of the accountant when there is laxity in account-keeping, not uncommon with sole traders and even with partnerships. A private company has to circulate annual accounts to its members; it must appoint an auditor who is required to report, *inter alia*, on whether or not proper books have been kept and on the truth and fairness of the accounts. Thus, incorporation of a business introduces an element of statutory control and formalities which do not apply to an unincorporated business. It is open to question whether a proprietor of a business would usually regard the imposition of these controls and formalities as an advantage of incorporation but they are advantageous to the public, the Inland Revenue and the accountant.

Another advantage claimed for converting a business to a limited company is that thereby it is better able to obtain additional capital from time to time than if the business were unincorporated. That is true in theory but it is not always so in practice. For instance, a company with substantial mortgageable assets, or with directors able to put up adequate collateral, may not experience difficulty in borrowing money, but a company whose fixed assets consist mainly of plant, even though its ratio of current assets to current liabilities is good, may find it difficult to obtain finance. Admittedly, investment trusts have been formed to provide capital for small and medium sized businesses, but conditions are sometimes imposed by such institutions which a borrowing company may find burdensome or impracticable of fulfilment.

A very important feature to consider before advising conversion of a business to a private company is the bearing of income taxation. A sole trader or partner is entitled to earned income relief on his business profits (up to two-ninths of £2,025) whereas companies are liable to tax on profits at the standard rate without deduction. Directors' remuneration is, of course, subject to earned income relief, so the tendency is for the proprietors of a private company to take profits in the form of remuneration rather than in the form of dividends so as to attract maximum earned income relief. A sole trader or a partner is assessed on profits under Schedule D, the rules of which as to admissible expenses are wider than the rules of Schedule E under which directors are assessed. Directors of companies have to contend with the complicated and vexatious provisions of Sections 160–168 of the Income Tax Act, 1952. They have to prove that sums reimbursed to them for expenses incurred or paid to them as expenses allowances have been expended wholly, exclusively and necessarily in performing the duties of the office, and their interpretation of the words "wholly exclusively and necessarily in performing the duties" may not coincide with the Revenue's interpretation. Further, the value of any benefits derived by a director from

his company has to be disclosed in the accounts, and also is liable to income tax. The sole trader or a partner is free from the irksomeness of these provisions. Again, sole traders and partnerships are exempt from profits tax (at 2½ per cent. on undistributed profits and 22½ per cent. on distributed profits) but limited companies are liable to it if their "adjusted profits" exceed £2,000. If a company is director-controlled, the distribution provisions can prove onerous for, in addition to dividends, distribution covers, for a director-controlled company, any amount applied by way of remuneration, loans or otherwise for the benefit of any person. Thus any remuneration paid to working directors in excess of the permitted maximum for director-controlled companies is treated as a distribution, as also are such items as expenses surcharged by the Revenue on directors, directors' benefits, loans to directors (subject to adjustment on repayment of the loans) or any loan interest paid to directors. The 22½ per cent. rate is payable on the full amount of any distribution unless the gross distribution be reducible to a net relevant distribution by reference to the abatement and franked investment income provisions. Hence, where a business is incorporated it may find itself mulcted in a quite substantial liability to profits tax which would not have arisen if the business had remained unincorporated.

Further, a private company, if a controlled company—broadly, under the control of not more than five persons—may be caught by the sur-tax provisions of Section 245 *et seq.* of the Income Tax Act, 1952, where it appears to the Special Commissioners that it has not within a reasonable period after the end of its year distributed a reasonable part of its profits.

The taxation repercussions of conversion do not end there. The Estate Duty position which may arise on the death of a member has to be considered. If the company is a controlled company (as defined above) and the deceased had control of the company, Section 55, Finance Act, 1940, would apply and his shares would be valued for Estate Duty on the assets basis. Despite the reliefs afforded by the Finance Act of 1954, an assets value may prove to be higher than the realisable value. If a sale of the shares at arm's length is made within three years after death, the sale price may be substituted for the assets valuation, but the shares may not be easily saleable. If the deceased's resources were mainly locked up in the company an embarrassing position might arise because of the difficulty of finding the money to pay death duties. Of recent years a number of companies have been formed to purchase minority interests in private companies of a family nature where money is or may be required to pay Estate Duty. Such concerns are not philanthropic institutions and would not buy shares unless they were likely to prove a profitable investment and with one such institution the minimum investment is £10,000. Failing outside assistance, the family nature of the deceased's company may have to be sacrificed.

Whenever a private company has taken over a business, there are always lurking in the background Sections 46 to 54 of the Finance Act, 1940. On the death of a member of a controlled company who has transferred property to that company or who has made a payment to the company there is always the possibility that the Estate Duty Office will invoke Section 46, when the interest of the deceased in the company would be valued on the "slice" basis which, even allowing for amendments made by the Finance Act, 1954, might involve a heavy liability on the estate and possibly on the company as well. It is stated that the Estate Duty Office rarely resort to Section 46 because a Section 55 valuation usually is more favourable to the Inland Revenue, but they do not hesitate to apply Section 46 in appropriate circumstances (for example, where the deceased continued to draw a substantial remuneration after giving to his children the bulk of his shares and the gifts were outside the five year period).

The foregoing observations, necessarily brief to keep within the limits of a short article, are sufficient, it is hoped, to suggest that any proposal to convert a business into a private limited company should receive the most careful consideration before it can be recommended.

The Liability of Accountants for Negligence

A series of lectures on the liability of professional people to actions for negligence is being given by Mr. J. P. Eddy, Q.C., at the City of London College. On January 26, Mr. Eddy considered the liability of bankers, accountants and auditors, and company secretaries.

MR. EDDY said that there were two phases in the history of professional accountancy in this country. One phase began towards the end of the eighteenth century, when a limited though ever-growing number of accountants began to undertake the audit of other people's accounts. The other phase began in the middle of the nineteenth century, when accountants found an increasing demand for their services, doubtless resulting mainly from the spread of limited liability companies, the passing of the Bankruptcy Act of 1869, and the general development of commerce and industry.

How wide and various was the work of professional accountants was shown in the article by L. R. Dicksee in the 14th edition of the *Encyclopaedia Britannica*. Mr. Eddy quoted from that article which, he said, succinctly set out a list of duties which accountants might be called upon to perform. In addition to auditing and investigation and the designing of systems of accounting, and acting as arbitrators or umpires or referees, they might be called upon to act as trustees in bankruptcy, trustees

under deeds of arrangement, liquidators of companies, receivers for debenture holders, and managers of businesses where a receiver was in possession of the assets. Certainly an extensive field of activity, added Mr. Eddy, and the list might be further extended.

Surveying this field, what had impressed him was the fact that there were so few reported actions against accountants and auditors for negligence. This might be because they themselves were watchdogs, on the look-out for negligence by other people, but the true reason was no doubt that they did bring to the discharge of their duties a high degree of care and skill and, what was equally necessary, a high sense of responsibility. Yet there were cases in the law reports concerning accountants and auditors, and it might be useful to look at one or two of them—one especially—from the point of view of professional negligence, first considering the position of an accountant in regard to his ordinary practice and then his position as auditor of a limited company.

Accountants were bound to bring to the exercise of their profession a reasonable degree of care and skill, such care and such skill as a reasonably competent accountant would exercise. One must, of course, look at the scope of the employment in any given case to determine what the duty was. Mr. Eddy referred to a case in 1931 in which a firm of Chartered Accountants were sued for breach of duty or negligence on account of their failure as auditors to detect some discrepancy. Mr. Justice Roche, as he then was, found that the accountants were not liable. He held that their employment was limited to this, that they had to examine the books kept to see that they were adequately summarised in the returns made to the head office.

Although it was not the duty of an accountant to take stock in auditing the accounts of a business, he might well call for explanations. This was said in the Court of Appeal in the case of *Mead* v. *Ball, Baker and Co.* [1911], 28 T.L.R. 81. There the plaintiff's allegation was that the accountants had been negligent in the performance of their duties. The Court of Appeal held that the plaintiff had failed to show that the alleged negligence had caused the loss, but it was laid down that auditors are entitled to call for explanations of items in the stock sheet, and that failure to ask for an explanation of items apparently lumped together might be negligence. Lord Chief Justice Alverstone, from whose judgment the appeal was made, also said that an auditor must make a reasonable and proper investigation of the stock sheets.

Mr. Eddy then turned to a recent case of considerable importance to accountants, that of *Candler* v. *Crane, Christmas and Co.* [1951], 2 K.B., 164. This case, he said, might be regarded as an outstanding example of the principle that where there is no contractual duty there is no liability for negligence for the damage sustained, but it was noteworthy for the fact that there was a dissenting judgment in the Court of Appeal by Lord Justice Denning which had attracted considerable attention.

In November, 1944, one Donald Ogilvie formed a tin mine company for the working of certain surface tin in Cornwall, with himself as chairman and managing director for life. In March, 1946, he told Crane, Christmas and Co. that he wanted them to prepare the accounts of the company. They entrusted the work to one of their clerks, but before much was done Ogilvie told the accountants that he had decided to go out for substantially more capital, and asked them to insert an advertisement in *The Times*, which they did. The plaintiff Candler answered the advertisement and asked to see the balance sheet of the company. The accountants were then pressed by Ogilvie to get out the accounts, some intensive work was put in, and the accounts were got out with the usual formula, though this was not signed. The plaintiff invested £2,000, and the judge found that he was induced to do so because the accounts, as shown to him by the accountants' clerk who had had charge of the work, gave an unintentionally false picture of the position of the company. The company was in a bad way and eventually a winding-up order was obtained. An action was thereupon brought against the accountants on the ground that it was due to the carelessness of their clerk that the plaintiff had lost his money. Mr. Justice Lloyd-Jacob found that the accountants, though not guilty of fraud, were in fact extremely careless in the preparation of the accounts, but the action was dismissed because in the absence of fraud there was no duty of care owed by the accountants, the defendants, to the plaintiff.

On appeal before Lord Justices Cohen, Asquith, and Denning, it was held by a majority that a false statement, carelessly, as contrasted with fraudulently, made by one person to another, though acted on by that other to his detriment, was not actionable in the absence of any contractual or fiduciary relationship between the parties, and that this principle had in no way been qualified by the decision in *Donoghue* v. *Stevenson* [1932], which is the leading case in the matter of a non-contractual relationship. The effect of the majority decision in the Court of Appeal was that accountants and auditors have a duty only to their own clients and not to third parties.

Lord Justice Denning, however, gave a dissenting judgment. In the course of it he said:

> I think that the law would fail to serve the best interests of the community if it should hold that accountants and auditors owe a duty to no one but their clients. Its influence would be most marked where their client is a company or firm controlled by one man. It would encourage accountants to accept the information which the one man gives them, without verifying it; and to prepare and present accounts rather as a lawyer prepares and presents a case, putting the best appearance on the accounts they can, without expressing their personal opinion of them. That is, to my way of thinking, an entirely wrong approach. There is a great difference between the lawyer and the accountant. The lawyer is never called on to express his personal belief in the truth of his client's case; whereas the accountant who certifies the accounts of his client is always called on to express his personal opinion as to whether the accounts exhibit a true and correct view of his client's affairs; and he is required to do this, not so much for the satisfaction of his own client, but more for the guidance of shareholders, investors, revenue authorities, and others who may have to rely on the accounts in serious matters of business.

Lord Justice Denning had gone on to say that if such was the law (that accountants and auditors owed a duty to no one but their clients) he thought it was to be regretted, for it meant that accountants' certificates, instead of a safeguard, become a snare for those who relied on them. He ended by saying:

> I do not myself think it is the law. In my opinion, accountants owe a duty of care not only to their own clients but also to all those who they know will rely on their accounts in the transactions for which those accounts are prepared.

Lord Justice Cohen cited the American case *Ultramares Corporation* v. *Touche* (New York Reports, 1931), where the accountants had certified the annual report of a company which in order to finance its operations required extensive credit and borrowed large sums from banks and other lenders. The Court had held that mere negligence did not make the defendants liable to the plaintiffs who had made advances on the strength of the certified accounts, though it was in fact found that there was evidence of negligence by the defendants in making their report.

The *Candler* case had attracted some attention in the United States. The decision itself, in favour of the defendants, was not unexpected, and the judgments of Lord Justices Cohen and Asquith were held to be workmanlike and consistent, but it was the brilliant dissenting judgment of Lord Justice Denning which made the case memorable. One American opinion was that the Court missed a golden opportunity.

Mr. Eddy went on to deal specifically with the responsibility of the auditor of a limited company and quoted from various judgments. There could be no doubt that an accountant who was appointed auditor to a limited company was bound to have a knowledge of the practical rules of the law which affected him in the exercise of his profession. There were some legal matters which an auditor must know, and there were others which he could not be held responsible for not knowing. He was also bound to know his duties under the articles of the company whose accounts he was appointed to audit and under the Companies Act for the time being in force.

Quoting one judicial remark, Mr. Eddy said that it was no part of an auditor's duty to give advice. He had nothing to do with the prudence or imprudence of making loans. It was nothing to him whether the business of the company was being conducted prudently or imprudently, profitably or unprofitably, provided he discharged his own duty to the shareholders. It was for him to ascertain the true financial position of the company at the time of his audit.

Then came the question, how was he to ascertain that position? It was done by examining the books of the company, but he did not discharge his duty without inquiry. He must take reasonable care to ascertain that the books disclosed the true position. As Lord Chief Justice Alverstone said, the auditor had the duty of exercising reasonable care in the circumstances. He must make a reasonable and proper investigation of the accounts and stock sheets, and if a prudent man would have concluded on such investigation that there was something wrong, it was his duty to call his employer's attention to the fact. He was not an insurer; he did not guarantee that his balance sheet was correct, only that it was according to the books of the company. What was reasonable skill and caution must depend on the particular circumstances of the case. The auditor was not bound to be a detective or to approach his task with suspicion or with a foregone conclusion that there was something wrong. In the famous phrase, he was a watchdog—but not a bloodhound.

The Unendorsed Cheque*

IN A LETTER dated November 22, 1954, Mr. R. Graham Page, M.P., asked whether the Society of Incorporated Accountants could confirm that, if his proposed amendment to the Bills of Exchange Act, 1882, were enacted, a paid cheque specially crossed to a banker would be as strong, if not stronger, evidence of receipt of the money by the payee than the endorsed receipt — and whether auditors would accept it as such.

The reply of the Council of the Society is reproduced below, together with Mr. Graham Page's observations on the reservations contained in it.

The version of Mr. Graham Page's Bill which was considered by the Council differed in some respects from the Bill as printed for the House of Commons. In particular, clause 3 of the printed Bill did not appear in the proposals before the Council. The other differences are matters of drafting and do not affect the views expressed.

The substantial parts of the Bill are as follows:

1. Section seventy-seven of the Bills of Exchange Act, 1882, is hereby amended by the addition at the end thereof of the following subsection:
   "(7) A cheque which is received by a banker for collection on behalf of a customer of that banker (or of another banker whose agent that banker is for the purposes of that collection) and which is crossed specially to that banker either before such receipt or by him after such receipt is deemed for all purposes to have been indorsed in blank by that customer at the moment that it is so specially crossed as aforesaid."
2. A cheque so deemed to have been indorsed in accordance with section one of this Act shall (as soon as it is honoured)

*An explanation of the proposal to dispense with endorsements on cheques, with discussion of the commercial, legal and banking aspects and of the position of the accountant and auditor, appeared in the December, 1954, issue of ACCOUNTANCY, pages 446–450.

be prima facie evidence of the receipt by the payee named thereon of the sum of money for which the cheque is drawn but shall not for that reason alone be a receipt within the meaning of section one hundred and one of, and the First Schedule to, the Stamp Act, 1891.

3. A cheque expressed on the face thereof to be payable subject to a condition that the sum of money for which the cheque is drawn shall (as soon as the cheque is honoured) be deemed to have been accepted by the payee named thereon upon any term or terms specified on the face or on the back thereof shall (notwithstanding the provisions of section three of the Bills of Exchange Act, 1882) be a bill of exchange; and upon any such cheque being honoured the payee named thereon shall be bound by such term or terms.
4. The references in section seventeen of the Revenue Act, 1883, and in section one of the Bills of Exchange Act (1882) Amendment Act, 1932, to sections seventy-six to eighty-two of the Bills of Exchange Act, 1882, are deemed to be and to have always been references to such sections as amended from time to time.

Views of the Council of the Society

Dear Mr. Graham Page,

The questions you ask and the points you raise, together with your draft Bill, have been considered by the Council of the Society of Incorporated Accountants. Accountants are interested as members of the public and as business men in the proposed abolition of the necessity to endorse cheques when paid in to a bank for collection, but attention has been concentrated on the accounting and auditing aspects of the subject.

It may be stated by way of introduction to the discussion which follows that receipts endorsed on the backs of cheques are not in general regarded by auditors as entirely satisfactory vouchers for payments, because in most cases they do not in themselves identify the account in respect of which payment has been made. Nevertheless, cheques with endorsed receipts, duly stamped if necessary, are usually accepted at audit as satisfactory vouchers if accompanied by other evidence showing the reason and authority for the payment.

The position is somewhat different if an accountant is asked to carry out an investigation into a suspected cash fraud. In this case the examination of vouchers will be more rigorous than in an audit. Cheques carrying bare endorsements will certainly not be accepted as in themselves satisfactory evidence of payment and receipt. Those bearing receipts will be independently examined as far as possible. The actual endorsements or receipts may be closely examined for alterations and erasures, careful comparison of handwritings, and the like.

From the point of view of the accountant, as opposed to the auditor or the investigating accountant, there is not much that can be said. Many undertakings rely on the receipted cheque method of payment, and may wish to maintain it. There is some reason to think that this method of payment is increasingly popular in the business and official world, but the majority of cheques still do not bear receipts. It depends on what method of making payments and obtaining receipts is considered most suitable by the particular business or individual.

You ask whether, if your proposed amendment to the Bills of Exchange Act, 1882, were to be enacted, auditors will accept a paid cheque specially crossed to a banker as evidence as strong as, if not stronger than, the receipted cheque as now commonly employed.

The Council are of the opinion that, subject to certain reservations set out below, there would be a net gain in the value of cheques generally as vouchers for payments. The objection that in many cases a cheque does not identify the account in respect of which the payment is made would be unaffected, but the great majority of cheques would by a statutory rule constitute *prima facie* evidence of receipt by the payee, and the special crossing would as a rule show that the cheque had passed through the payee's bank account.

Some auditors may continue to prefer independent receipts on the payee's official receipt forms, and no assurance can be given that all auditors will in all cases dispense with this requirement, but in general the value of paid cheques as vouchers for audit purposes will be improved by the new provisions with regard to the effect of the special crossing.

It must not be supposed, however, that an auditor can shelter behind a legal rule that a certain document constitutes prima facie evidence of receipt. His duty to guard against fraud and falsification requires a critical attitude towards documents which may constitute legal evidence.

Reservations

These views are subject to the following important reservations:—

(*a*) There is a difference between the first and second paragraphs of your proposed additions to the Bills of Exchange Act, 1882. Under the first paragraph, the special crossing of a cheque adds the "deemed endorsement" of the bank's *customer*. Under the second, such a cheque, when honoured, is a "deemed receipt" by the *payee* of the cheque. In the great majority of cases, the customer and the payee will be the same person. But we can find nothing in the draft Bill to restrict the operation of the receipt paragraph to the case where the customer handing in the cheque for collection is the payee. It follows that the cheque could be stolen from the payee, a forged endorsement added, and the cheque handed in for collection by a customer of a bank (who might be the thief or an innocent party). This would call the second paragraph into play, and such a cheque, when honoured, would be evidence of receipt by the payee of an amount which he had not in fact received.

This possibility detracts seriously from the value of the cheque as evidence of receipt by the payee. It could be avoided by restricting the operation of the whole of the proposed amendment to the customer-payee case, though this would restrict the operation of the "deemed endorsement" provision.

(*b*) The absence of any actual signature on the back of the cheque by or on behalf of the payee would render more difficult the detection and investigation of fraud by an auditor or investigating accountant. It would not affect cases where the drawer's signature had been forged, but it would affect cases where the payee's name or endorsement had been forged.

There is force in your argument that, under your proposals, the opportunity for fraud of this nature is decreased. At present, the necessity to forge an endorsement on an order cheque may act as a deterrent, but since all order cheques must be endorsed, the thief may reasonably hope that his forged endorsement will be missed among so many.

The new position, as you point out, would be that actual endorsement would be rare (assuming that the public readily ceased the practice as a result of the change in the law). It might in itself tend to put a person on inquiry. A thief who wishes to obtain payment of a stolen cheque would still be obliged to obtain or forge an endorsement, but it would stand out as unusual.

Moreover, under your proposals cheques would normally leave the payee's office for payment into his bank in one of two conditions. Either they would bear a special crossing to the collecting bank added in the payee's office, as is often done now, or they would be unendorsed, the payee relying on the special crossing added by his banker to produce the effect of an endorsement by him. In either case the cheques would be in a safer condition during transit than cheques endorsed in blank with no special crossing, such as are commonly seen at present.

After making allowance for these considerations, however, the Council adhere to their view, already expressed to you, that the effect of your proposals on the ability of the accountant to detect and investigate fraud should not be overlooked by the business community whom he serves.

It is true that there is often other evidence which will help to indicate the source of a fraud, but, in those cases where such other evidence is not obtainable or is inconclusive, it would, from the accountant's and auditor's point of view, be helpful if banks were able to reveal the account to which the amount of a forged cheque had been credited. This, however, is a matter of banker-customer relationship and is one on which the Council cannot express an opinion.

(*c*) There is an additional point which should be considered. At present, a collecting bank is allowed some latitude in crediting the amount of a cheque to an account in a name which differs slightly from the name of the payee as stated on the face of the cheque. Should a mistake be made, perhaps in the drawer's office, and the amount of the cheque reach and be credited to (for instance) the wrong "Smith", the drawer or his auditor may be able to discover it. When the cheque is returned, the form of the endorsement on the back may reveal it. If no actual endorsement is present, the drawer or his auditor will be deprived of this opportunity. This consideration affects cases of fraud as well as mistake.

It is not suggested that it is by itself a major consideration, but it does serve to emphasize the increased importance of the correct statement of the payee's name if mistakes of this kind cannot be discovered by means of an endorsement.

You refer in the last paragraph to the possibility of introducing provisions in the Bill to strengthen it with regard to the detection of fraud.

The Council will be glad to give any assistance they can on this aspect of the matter. It will be apparent from the reservations stated above that they wish to ensure, as far as they can, that the new system (if it becomes law) shall be as efficient as possible in preventing fraud or facilitating its discovery.

Yours faithfully,

I. A. F. CRAIG,
Secretary.

Incorporated Accountants' Hall,
London, W.C.2.
January 28, 1955.

Mr. R. Graham Page's Reply

Dear Mr. Craig,

Thank you so very much for your letter of January 28. It was extremely kind of you to write me so fully upon the several points arising out of the Bill as now printed.

Your general statement that "the value of paid cheques as vouchers for audit purposes will be improved by the new provisions with regard to the effect of the special crossing" is most welcome.

I do, however, appreciate the reservations to that general statement and I am anxious to provide for those reservations so far as may be possible within the scope and principle of this modest Bill.

May I refer to those reservations?

(*a*) The reference to "payee' 'in Clause 2 of the Bill was quite deliberate. It seemed to me that to say that the paid cheque should be evidence of receipt of the money by the bank's customer was of no assistance to the drawer or his auditor. He would want to know whether he could rely upon the paid cheque as the receipt of the person to whom he intended to pay the money.

But the paid cheque will be no more than prima facie evidence of receipt. As such it will, in my view, be of exactly the same value as any other receipt. In the case of an ordinary receipt the apparent recipient is not absolutely stopped from denying receipt of money merely because his apparent signature appears on the receipt. It is open to him to prove that the receipt was obtained by forgery, fraud, mistake, etc.

The instance which you give of the stolen cheque with a forged endorsement is one which can, of course, happen under existing law. The Bill is not intended to deal with existing opportunities for crime—although I am anxious to be able to claim that it does not increase those opportunities.

I would not therefore wish to amend Clause 2 from "payee" to "customer." Nor would I wish to amend Clause 1 from "customer" to "payee"—the arguments against that are many and strong but the main one is, I think, that it would in effect give the banks liberty to create an endorsement by anyone.

(*b*) I can see no strong objection to the bank (to whom a cheque has been specially crossed) being obliged, upon written request from the drawer, to disclose into whose account the cheque has been paid. That obligation could be made a matter of law and not merely one of banker-customer relationship.

(*c*) The same remarks apply to your instances of mistake in the account credited.

If I correctly understand the views of your Council as expressed in your letter, an obligation upon the banks to disclose the account into which a cheque has been paid would overcome the difficulties which the Bill might otherwise place in the way of detection of fraud. I would certainly be happy to support an amendment to the Bill, introducing that statutory obligation.

I would also, of course, be happy to consider any other amendments aimed at detection of fraud, provided that they did not launch out into general criminal law but were restricted to preventing the Bill causing a reduction in the facilities for investigating and detecting fraud.

Yours sincerely,

R. GRAHAM PAGE.

House of Commons,
February 1, 1955.

The Practice of O. & M.

We have received a copy of *The Practice of O. & M.*, compiled by The Organisation and Methods Division of H.M. Treasury (Her Majesty's Stationery Office, pp. iv+48, 5s. net). The book is primarily intended for the use of civil servants engaged on organisation and methods work, for whom it may serve as a training manual or an aide-memoire. It is placed on sale to help those who are dealing with similar problems of increasing efficiency in commercial and industrial enterprises.

Profit Ascertained on Commercial Principles

By F. A. ROBERTS, A.S.A.A.

THERE IS MUCH legal authority in support of the proposition that in computing the balance of profit and gains under Rule I of Case I of Schedule D, one takes the accounts for the period as prepared on commercial principles and, in accordance with the statutory provisions regarding allowances or prohibitions, adjusts the profit figure revealed. One might well think that to follow this procedure is simple: yet members of the profession know, from daily experience, that profound complications are frequently met.

The judgment of Upjohn, J., in the recent case of *Owen* v. *Southern Railway of Peru Ltd.* (1954, T.R.335) seems to call for careful consideration by accountants. Mr. W. B. Cowcher, in his commentary on this case in ACCOUNTANCY for January last (pages 26/27), states that it would be interesting to know whether the accountancy profession agrees with the view of the Judge on how the liability, which resulted from the circumstances of the case, should be dealt with on ordinary commercial principles. Mr. Cowcher's remarks impel me to express my personal views in the hope that they may be generally thought to be supportable.

Mr. Cowcher includes a very concise statement of the facts in his summary but they may be shortly re-stated. Under the law of the Republic of Peru the railway company was under obligation to make lump sum payments to its employees upon the termination of their service and the only ways in which an employee could lose his right to a lump sum were by dismissal for misconduct or by his leaving without notice. Let us follow Mr. Cowcher by taking one of the two examples set out by him and which were contained in the judgment:

> B receives £600 per annum for the first five years, £1,200 per annum for the next five years and £600 per annum for the next five years. He is then dismissed. His compensation will be at the rate of £100 per month for the first ten years—the fact that he only earned £600 per annum for the first five years being irrelevant—and at the rate of £50 per annum for the last five years, making £1,250 in all.

Counsel argued that the effect of the legislation was that there was a certain minimum liability to each employee in respect of his services during each year and that it was really a method of deferred remuneration. Upjohn, J., did not accept this view and indicated that, even if the argument of Counsel could be supported, no yearly charge could be set up against profit because:

> the ordinary rule is that the proper time to debit a liability of a company is when it has become a present liability or more truly an obligation; that is to say, in an ordinary case has become payable.

This challenging *dictum* must at once invite the interest of accountants.

From the *dictum* it must be accepted, for the time being, that debit items taken to account in the ascertaining of profit must represent either cash payments or liabilities presently payable. It seems that consistency would immediately require that no credit item can be taken to account unless it is represented by a legal asset. This leads one into a very wide field. Can it be said that in the ascertainment of profit on commercial principles every constituent item falls within one or other of these categories? If it were practicable for a company to prepare two balance sheets, one at its inception and the other immediately after the liquidator had realised the assets and discharged the liabilities, the difference between the equities revealed—allowing of course for the capital profits or losses on realisation—would be an accurate revenue profit figure.

Debits and Liabilities

It is in the effort to reach periodical profit that we are forced to apply commercial principles: we have to include all debit and credit items which are related to one another. This does not mean that the debits represent exclusively cash payments by, or legal current indebtedness of, the trader, nor do the credits include solely cash receipts and legal indebtedness to the trader. If a sale be credited, the commission of the salesman will be debited even if he may be entitled to it only at a later date when the customer pays for the goods. At the date to which the profit is being ascertained there is no liability but merely a contractual obligation to pay the salesman his commission when the customer pays. Upon the assessment of a general rate by the local authority there at once arises an indebtedness; but the debit taken to account in reaching the profit is calculated on a time basis.

These simple examples illustrate that there may be a debit although no liabilities exist; similarly when there is a liability often only a proportionate part of it is taken as a debit.

Long-Term Contracts

A very substantial part of industrial activity is directed towards the execution of long-term contracts: particularly are these at the root of the business of engineering and building contractors. These contracts are almost invariably entire rather than severable in character: indeed in *Anson on Contracts* it is stated that the majority of contracts in business are most probably entire.

It is elementary mercantile law, well known to every accountant, that with an entire contract no debt is due from the customer in respect of a sale until the goods have been manufactured and delivered to him (see *J. P. Hall*,

12 T.C.). During the currency of the contract there may be, and most usually are, sums due at intervals from the customer in respect of progress monies. It is important to remember that these sums are not due in respect of the sale and the consequent indebtedness which will arise at the point of delivery: they are made in compliance with a provision in the contract entitling the contractor to receive progress payments—in substance, loans—which, although measured by the quantum of work executed, are not in payment of any indebtedness in respect of it. There is no such indebtedness. In other words, no payment is due in connection with the work done until it is fully completed: it is merely that loans are received in the form of progress payments which when the work is completed will be applied in satisfaction of the indebtedness then firstly arising.

What are the commercial principles followed in the ascertainment of periodical profit of concerns which operate under this type of contract? I think it will be accepted that the general practice is to take proportionate "slices" of the total billing figure to credit through sales during the running of the contract: such "slices" being broadly measured by the amount of progress money received. In this "slice" there is some proportion of the element of profit: in law no profit has accrued although in a sense it has been earned. This means that there is a credit taken to account in respect of profit although there is no legal asset to represent such profit. Here then is another example showing that the commercial world in applying commercial principles departs from strict legality in the endeavour to spread the anticipated profit over the accounting period covering the currency of the work.

It is difficult to suppose that an Inspector of Taxes would advise the taxpayer or his professional advisers that the profits taken to account in these long term contracts are not legal profits and therefore not available for assessment. However, it seems clear that the Inland Revenue, when causing the "spreading" provisions to be introduced in connection with Excess Profits Tax and profits tax, realised that without these provisions it would not be possible to assess any proportion of the profits on these contracts until completion. It seems remarkable that the "spreading" provisions have not been made applicable to income tax: it may have been thought that the commercial practice of taking a proportionate notional profit to account obviates the necessity.

Sales and Invoices

Turn now to another consideration—one which has been very much in mind in recent years. If an accountant be instructed to examine the system of internal check subsisting in an organisation, he will frown if he finds that the system in the goods outwards department is such that there is substantial risk that goods may be dispatched from the premises without being invoiced. The invoice is a notice to the customer that he has become indebted to the supplier. He can only become so indebted on the ownership—the legal property—in the goods passing to him. It is an interesting fact that seldom is the time of goods leaving the premises that at which the legal property passes. In an F.O.B. transaction the legal property cannot, in the absence of very unusual circumstances, pass before the goods are put on board: if the bills of lading remain to the order of the seller until some further conditions are fulfilled, the legal property will not pass until the bills have been endorsed over.

Here again commercial expediency requires that in general a sale should be recorded at or about the time the goods leave the premises of the supplier. Cases are indeed rare in which any consideration is given by the commercial world to the opening section of the Sale of Goods Act of 1893. Moreover, auditors do not appear to be concerned with the strictly legal consideration about when the agreement to sell becomes a sale. It must follow then that, if a sale be recorded as such before the legal property has passed, the assumed indebtedness of the customer is not a true asset and the profit element included is not a legal profit. *J. P. Hall* (12 T.C.) is direct authority for this statement.

Commercial Principles and Assessable Profits

Many further examples may be adduced. What has been stated may be sufficient to exemplify that profit ascertained on commercial principles does not comprise only what may be called legal ingredients. How one is to reconcile the judgment in the *Southern Railway of Peru* case with these commercial principles seems to raise a vitally important question. The case may of course reach the House of Lords.

There is no doubt that today the bulk of industrial production is based upon entire contracts, usually with instalment deliveries during the currency of the contracts: in such cases no legal profit ensues until the final delivery. As to this are accountants, in their computation of income tax liability, excluding the notional profit figure usually taken to account in following commercial principles and only taking profit into the assessable figure when the contract is completely executed? Also are they excluding profit on so-called sales taken to account before the legal property has passed? These considerations affect the credit side: the *Southern Railway of Peru* Case is directed to the debit side.

In summary, it may be said that there is at present a large width between profit calculated on commercial principles, as amended by the requirements of the statute relating to allowances or prohibitions, and the figure of assessable profit. The attempt to "marry" debit items against relevant credit items as followed in commercial practice has not the support of the Courts: the test which is implicit in several recent case decisions seems to be that debit items must be payments or present liabilities: following *J. P. Hall* (12T.C.) it seems that the credit items must be exclusively represented by legal assets. One is forced to wonder whether there is any real usefulness in referring to "profits calculated in accordance with commercial practice" in matters of taxation.

Sur-tax Directions

IT SEEMS THAT the Special Commissioners are just biding their time with most controlled companies with a view to making a sur-tax direction as soon as the company makes the slightest show of leaving the Chancellor's umbrella (see ACCOUNTANCY, January, page 23). Some companies, it appears, have been allowed to declare dividends for past years rather than be forced to pay tax on the whole of their profits. This shows a sense of reasonableness which is very necessary in dealing with such a penal thing as sur-tax directions. To apportion the whole of the profits of a trading company would lose sight of the effect of profits tax as it is imposed today. If a company without franked investment income pays a dividend of 70 per cent. gross it is in effect paying away the whole of its profits in the form of net dividend, in income tax and in profits tax. If such a company pays 50 per cent. of its profits as gross dividend then it is left with no more than 15 per cent. to place to reserve. It is suggested that there can be few trading companies who would be thought unreasonable in putting that amount to reserve under present conditions of inflation. Indeed, most companies would be well advised to put a good deal more.

It is true that if the whole of the profits are the subject of a sur-tax direction then profits tax is not payable for that period; that, however, is not the point. The point to be looked at is: what would a reasonable Board of directors do when they came to consider the declaration of the dividend and what would the general meeting which considered those recommendations be likely to do? The problem should not be looked at from the point of view of sur-tax alone; in other words, a reasonable Board of directors should not be expected to sit round saying "how much can we get away with?" It is therefore only right that although the Acts make no provision for post-dating dividends in this way the Special Commissioners should, as they are doing, take the common sense line that if the company puts its house in order that will be all right.

There is another feature which is a little bit odd. It appears that when considering what would be a reasonable distribution out of profits the Special Commissioners look at the profits available for dividend and ignore completely the increases which may have taken effect in directors' emoluments. It may be true that directors' emoluments are not truly a distribution of profits but we feel that they must be taken into account in deciding what a company has done with its profits when earned. For example, if a company were to appoint a shareholder as an additional director and to pay him director's fees instead of the dividend that he was paid before it would seem unreasonable that this should not be regarded as being the same amount of distribution as in the past. We cannot think that the Special Commissioners would fail to recognise this fact if it were placed before them.

It is sometimes suggested that there is some proportion of the profits which the Special Commissioners recognise as being reasonable. That, however, does not appear to be so, nor would it be common sense that any hard-and-fast proportion should be laid down. The circumstances of each individual company, its capital commitments, its expansion and all the other relevant factors must be taken note of in deciding whether the company has, in fact, made a reasonable distribution.

There is another very important matter—the wording of Section 245 which starts off the legislation affecting distribution. This reads "with a view to preventing the avoidance of the payment of sur-tax through the withholding from distribution of income of a company which would otherwise be distributed." It will be seen, therefore, that the Special Commissioners are entitled to look only at income being withheld from distribution and not to take into account capital. A distribution of a capital profit as such, therefore, would not seem to be a matter which could affect in itself the possible liability of a company to a sur-tax direction.

The provisions of Section 252 seem to be increasingly invoked by companies in order to get a clearance from sur-tax. This Section allows a company to submit to the Special Commissioners immediately after the general meeting at which the accounts of the company have been considered a copy of the accounts and such other information as they think the Special Commissioners should have in order to enable them to consider whether the company should be the subject of a direction or not. Clearance is usually given very quickly unless the Special Commissioners desire further information. Some people seem to think that asking for such a clearance is putting one's head in the lion's mouth. That, however, is not so. Asking for a clearance might accelerate a direction but could not bring a direction where one would not otherwise be made. The great benefit of the clearance is that a company knows that it can proceed with its further developments and plans without worrying about what the past profits mean in connection with sur-tax. If shares in a controlled company are being sold, for example, by an issue or a placing on the market, the purchasers will want either a clearance or an indemnity for any sur-tax directions that might ensue in respect of the profits up to the date of the sale.

In the case of investment companies, an apportionment is automatic each year. The income of investment companies is deemed to be available for distribution as it is received. Such companies do not, therefore, pay profits tax. There are, however, many investment companies which have, in addition to investment income, some estate or trading income. In their case the apportionment in respect of the investment income is automatic but in respect of the estate or trading income the reasonable provisions apply. These companies are in the unfortunate position of having to pay not only sur-tax on the whole of their investment income but also profits tax on the whole of the income, excluding, of course, franked investment income. It is only if a direction is made in respect of the estate and trading income as well that such a company escapes profits tax.

Conversion of Property

SCHEDULE A AND EXCESS MAINTENANCE RELIEF

[CONTRIBUTED]

THOSE WHO ARE contemplating the conversion of property—into, for example, flats or maisonettes—should avoid causing the old building to lose its identity. If a new entity is created, not only will excess maintenance relief be lost, but also there will probably be a completely new assessment on which Schedule A tax will be payable, and the new assessment is bound to be much higher than the old one.

It is useful to bear in mind the observations of Lord Asquith in *Langford Property Co. v. Batten* (1950, 2 A.E.R. at page 1088) that mere improvement or *structural* alteration does not necessarily, at any rate for the purposes of the Rent Acts, effect a change of identity. But to devise plans for a conversion to attain the desired object and prevent a loss of identity is not easy. Attention may, however, be directed to some points which may be useful as a guide.

It must be remembered that even though a building may be split up and let out to different persons, the comprising building remains the unit for the purpose of assessment to Schedule A—provided that the separate parts have not become distinct entities. Thus, every block of flats having a separate entrance from the street is regarded as a single unit for Schedule A purposes. If possible, one should therefore secure that all the maisonettes or flats in a converted building are approached by one common entrance and staircase.

The extent of the physical separation of each part of the building from the other parts is important. If the conversion completely seals off from the rest of the building one part, which in its previous original state was not completely cut off, then the chances are that a separate and distinct entity will be created. If there are dividing doors in the original state of the building between the parts which it is desired to make into different flats or maisonettes, it would be inadvisable to take down the doors and brick up the openings: some temporary and easily removable type of barrier might suffice for the purpose, and would avoid a finding by the Commissioners that separate entities had been created.

In a recent unreported case, a house after some alterations was let in three separate tenements. The lessee had repaired the building and had added a staircase connecting the first and second floors internally, making these floors a self-contained maisonette. Other work was done so as to make the third floor into a self-contained flat. The cubic capacity of the house remained virtually unaltered, the number of rooms was the same after the alterations as before, and the structure of the house was not interfered with. The taxpayer contended that there had been no alteration in the layout or at any rate no substantial alteration in it, and that the identity of the building had not been altered. He succeeded, and it was accordingly held that he was still entitled to excess maintenance relief in respect of the cost of the repairs.

One further point of practical advice. Let the architect or builder prepare his plans, aiming at preserving the identity of the building. Then let the owner have the plans submitted in advance to the Inspector, to obtain his assurance and agreement that the building will not lose its identity as the result of the alterations and that the excess maintenance relief will be preserved.

It should be noted that if the effect of the alterations is not to change the identity of the property the cost of any repairs obviated by the alterations will, by way of concession, be admitted to relief.

What, now, of the expenses that would be admitted under an excess maintenance claim by the owner effecting the conversion?

Under Section 101(3) of the Income Tax Act, 1952, no account may be taken of any expenditure incurred on maintenance, repairs, insurance and management in so far as the expenditure has been met directly or indirectly by, *inter alia*, any public or local authority or by any person other than the owner. For example, if an owner received a subsidy under the Housing Acts, the amount of the subsidised expenditure would have to be excluded from his excess maintenance claim. Similarly, if a tenant entering into a lease undertook to put the property into repair in consideration of being granted a lease, the cost of the repairs incurred by the tenant could not be included in a maintenance claim by the landlord.

If the properties are managed as one estate, separate claims for each of them will not be allowed (Section 101(4)). All the properties must be aggregated. It seems, however, that lands and houses should be made the subjects of separate claims. The fact that all the properties are under the management of the same person will not necessarily constitute the properties one estate for the purpose (see *Scottish Heritable Trust Ltd.* v. *Inland Revenue* (1945, 26 T.C. 414), *Crompton* v. *Campbell* (1915, 9 T.C. 224)).

There are four items of expenditure which may be taken into account for the purpose of excess maintenance claims, namely, repairs, maintenance, insurance and management.

Repairs are something different from replacement. A repair means a renewal of a subsidiary part or parts of a building. That has been the definition given to the word "repair" in cases arising under the law of landlord and tenant in regard to the construction of repairing convenants (*Lurcott* v. *Wakeley* (1911, 1 K.B. 905)) and it has apparently been recognised for tax purposes (see, for example, *O'Grady* v. *Bullcroft Main Collieries* (17 T.C. 93) and *Phillips* v. *Whieldon Sanitary Potteries Ltd.* (45 R. & I.T. 269)). But repair does not mean replacement of the whole or substantially the whole of a building (*Lurcott* v. *Wakeley*, supra). It appears that Section 101(2) of the Income Tax Act, 1952, itself recognises this distinction, since it expressly defines maintenance as including the replacement of certain types of buildings, but it is to be observed that this part of the definition appears to be limited to agricultural property such as farm houses, farm buildings, cottages and the like. At the same time it is arguable that any work of replacement which is necessary to maintain the existing rent will constitute maintenance, irrespective of the nature of the property. On the other hand additions or improvements to property cannot be regarded as "maintenance" unless it is so expressly provided, as with work done pursuant to statutory obligation to property consisting of farm houses, farm buildings or

cottages, if no increased rent is payable (Section 101(2)). The inference, therefore, is that in other cases works constituting additions or improvements would be regarded as being of a capital or quasi-capital character and accordingly regard could not be had to any such expenditure for the purpose of a maintenance claim.

The word management is to be given apparently a restricted meaning; any expenses of litigation in connection with the property would not be regarded as expenses of management (*Wilson's Executors* v. *Inland Revenue* (18 T.C. 465)). On the other hand, expenses in connection with the collection of rents (*House and Property Investment Co. Ltd.* v. *Kneen* (21 T.C. 470)) and the cost of advertising property to let (*Southern* v. *Aldwych Property Trust Ltd.* (1940, 23 T.C. 707)) have been held to be expenses of management. Furthermore, in *London and Northern Estates Co. Ltd.* v. *Harris* (1937, 3 A.E.R. 252) the salaries paid to surveyors in looking after the property were held in part to be a cost of management.

The cost of insurance is allowable, but it would be limited to insurance of the property; it would not extend to insurance of the contents. Furthermore, the cost of any insurance by way of leasehold redemption so as to produce a sum representing the original value of the leasehold interest upon the determination of the lease would not be allowable (*Pearce* v. *Doulton* (1947, 27 T.C. 405)).

The special provisions disallowing deductions for war risk premiums and for certain payments in respect of war injuries to employees contained in Sections 476 and 477 of the Income Tax Act, 1952, and the special relief that may be claimed in respect of war damaged property under Section 478 should be noted. Expenditure on making good war damage when it is not recoverable from the War Damage Commission or any other person can also be included in an excess maintenance claim.

Taxation Notes

Machinery or Plant and Investment Allowances

A query has been raised about the meaning of machinery or plant for the purposes of investment allowances. It is quite clear that the term is used in exactly the same sense as for initial and annual allowances. Nowhere is it defined, but in practice it includes fixtures and fittings of a permanent and durable nature, but does not cover buildings or parts of buildings, such as shopfronts. Alterations necessary to a building incidental to the installation of machinery or plant are part of the cost of machinery or plant. This is provided for in Section 300 of the Income Tax Act, 1952.

Those concerns which have adopted the renewals basis for allowances for machinery or plant do not get initial or annual allowances on renewals in the ordinary way but it is specially provided that the investment allowance is to be given on the cost of the new plant which renews existing plant dealt with on the renewals basis. Certain machinery or plant is, of course, specially excluded from the investment allowance, such as secondhand items and private motor cars.

Allowable Expenses

It is well known that to be allowed for trade purposes expenditure must be laid out wholly and exclusively for the purpose of the trade. This results from the wording of Section 137(*a*), Income Tax Act, 1952. These words have given rise to many cases in the Courts to decide whether certain expenditure is on one side of the line or the other. It is always difficult to decide whether or not certain expenditure is sufficiently connected with the trade to be laid out wholly and exclusively for its purposes. In the well-known case of *Strong & Co.* v. *Woodifield* [1906] 5 T.C. 220, Lord Davy took the words to mean "for the purpose of enabling a person to carry on and earn profits in a trade." Doubts have been thrown upon this interpretation. For example in *Smith's Potato Estates* v. *Bolland* [1948] 30 T.C. 267, several of their Lordships took the view that the question depends upon the construction of the statutory words and not on the meaning of "for the purpose of earning the profits." Indeed, it has been held that so long as expenses are laid out for the purpose of trade they are deductible even if they were incurred in earning a profit which is exempt from tax (*Hughes* v. *Bank of New Zealand* [1938] 21 T.C. 517). (While the decision in that case is put out of action by the Income Tax Act, 1952, Section 436, so far as banks, insurance companies and security dealing businesses are concerned, it still stands as good law in other cases.) A question of degree such as this is one of fact and a decision of the General or Special Commissioners will be upset by the High Court only where there was either no evidence sufficient for their decision or they have taken irrelevant matters into consideration.

Recently we have had two cases dealing with propaganda for political purposes. In *Morgan* v. *Tate & Lyle* [1954] 2 All E.R. 413, the House of Lords held that money spent by the company on a campaign against the nationalisation of their industry was within the meaning of the phrase, "wholly and exclusively" etc. On the other hand, in several cases, of which *Boarland* v. *Kramatpulai Limited* [1953] 35 T.C. 1 was one, expenditure incurred on circulating a pamphlet containing the chairman's remarks at the annual general meeting attacking the policy and acts of the then Government was held not to be wholly and exclusively laid out for the purposes of the trade. The expenditure must be in connection with the trade which is being carried on, not in connection with some other trade, even if it is the intention to start that other trade and the trade is very like that already being carried on. Where expenditure does not come entirely within the definition but some of it is properly within the definition then the amount involved should be apportioned so that the expenditure laid out wholly and exclusively for the purposes of the trade is allowed as a deduction and the remainder of it is not.

A Tax Differential for Oversea Profits?

The *British Overseas Mining Association* has addressed a letter to the Chancellor hoping that he may find it possible to deal in the Budget with the general problem of the taxation of oversea profits and income of British resident companies. Whilst admitting the noteworthy efforts to solve the problem by the negotiation of double taxation agreements and by unilateral relief, the Association regards these reliefs as inadequate, especially in respect of mining overseas. It points out that the present United Kingdom basis for the taxation of profits, etc., abroad arose when taxation was levied here at low rates and was almost non-existent in oversea countries and also when London was the financial and technical centre of the world. It refers to the "hostility and resentment aroused in oversea territories, including the Dominions and Colonies, by the universality of the United Kingdom tax claim", which should now be abated. As an interim step the Association urges the creation of a tax differential between United Kingdom profits and external profits of British resident companies, noting that President Eisenhower recently requested Congress to allow a fourteen-point differential in favour of profits earned outside the United States.

The fiscal difficulties referred to are common to all British companies trading overseas but the Association points out that there are problems peculiar to the British oversea mining industry. It made a claim to the Royal Commission that the problem of wasting assets should be recognised by granting percentage depletion allowances on the same lines as those in force in Canada, the United States, Southern Rhodesia and Australia. There is also an urgent need for greater elasticity in the treatment of amortisation and depreciation of fixed assets, so that British companies may be placed on the same basis as those registered overseas. The double taxation relief provisions should be extended to include oversea taxes in such forms as production taxes, royalties computed on the basis of income, export duties and the like. The Association remarks that the frustration of oversea tax concessions is causing hard feelings in certain oversea territories.

Allowances for Machinery and Plant

The Inland Revenue has now issued the 1955 edition of its *Notes on Allowances for Machinery and Plant* bringing the capital allowance position up-to-date. These booklets are the most welcome emissions from the Inland Revenue department and are exceedingly well written.

The current edition includes details of the investment allowance. As practising accountants will automatically be issued with copies of the booklet through their local tax office, where additional supplies can also be obtained, we do not think it necessary to review the pamphlet in detail.

Contracting Out

The case of *Stevens* v. *Britten* noted on page 110 calls to mind another of some forty years ago. A. and B. had been in partnership for many years when A., an old man who had been entitled to the bulk of the profits, retired leaving his capital in the business. Subsequently, serious income tax fraud had been discovered affecting a large number of years and, after inquiry, the Surveyor—now called Inspector—agreed to recommend a settlement on the footing that by way of tax and penalties B. should pay £*x* and A. the much larger sum of £*y*. A.'s solicitor had then produced a deed supplemental to the deed of dissolution but executed on the same date whereby B. agreed to indemnify A. against all claims by the Revenue for income tax and penalties in respect of all the years of the partnership. He demanded that B. should be required to pay the whole of the sums under the proposed settlement.

In those days the District Surveyors were allowed more latitude than now and the Surveyor in question resolved that A.'s indemnity should avail him nothing. In an interview with the latter's solicitor, he withdrew his offer to recommend a monetary settlement and said he would press for a prosecution. In that event, he said, A. and B. would each be likely to get six months and A. could then produce his deed of indemnity to the governor of the gaol who would, no doubt, see that B. served both terms. Needless to say, nothing more was heard of the indemnity and A. did not dare to attempt to recover from B.

Investment Allowances

When advice is given to clients on investing in industrial buildings, new plant and machinery, etc., and their attention drawn to the investment allowances, due attention should be paid to the effective date of the relief. In the case of agricultural and forestry works the relief operates in the year following the year of expenditure, so that the benefit will be felt for income tax on January 1 in the year after the expenditure and for sur-tax a year later still. Here the investment allowance gives a reasonably early and additional benefit compared with the situation prior to the Finance Act, 1954.

In the case of industrial buildings the relief is given instead of the old initial allowance and in comparison with that allowance will not have any effect on the taxpayer's income until the last five years of fifty years from the date of expenditure, unless he sells the building in the meantime, when the effect will be seen in a lower balancing charge or higher balancing allowance. If the comparison with the initial allowance is disregarded then, of course, the advantage is felt for income tax on January 1 in the year of assessment for which the accounting year of expenditure is the basis period. If accounts are being made up to April 30, expenditure on May 2, 1954, would be in the basis period for 1956-57 and, therefore, relief at first shown on January 1, 1957.

In the case of machinery and plant the difference between investment allowance and initial allowance will be seen first in the second year of assessment following the basis year in which the expenditure was incurred. This is because the investment allowance is not deducted in arriving at the written down value, and this will result in a bigger annual allow-

ance for the second and following years as compared with the position where initial allowances were in point. The balance of the benefit will be seen in a balancing charge or balancing allowance. For profits tax purposes, however, the difference is more evident because the relief is given as a deduction in computing the profits of the accounting period in which the expenditure is incurred. This is going to complicate computations, because in the case of second-hand plant and machinery, private motor cars, etc., initial allowances still apply and these will be given in the accounting periods falling in the years of assessment for which the initial allowances apply, whereas in the case of new plant the investment allowances will be given as stated.

It is a somewhat sad thought that computations started today for industrial buildings may be completed by our grandchildren. This should encourage us to see that our working papers are complete, neat and informative. Computations for plant and machinery involve even greater detail than in the past.

In the case of mines, oil-wells, etc., the taxpayer has now to choose between an initial allowance of 40 per cent. which will be taken into account in arriving at written down value and an investment allowance of 20 per cent. which will not.

It will be remembered that 60 per cent. of capital expenditure on scientific research is allowed in the first of the five years following the basis year in which the expenditure is incurred and 10 per cent. in each of the following four. The investment allowance of 20 per cent. is made in the first year of assessment and is not taken into account in arriving at the written down value.

Extra-Statutory Tax Concessions

Extra-statutory concessions in operation on December 31, 1953, and additional to those published in previous reports, are given in an appendix to the 97th Report of the Commissioners of Inland Revenue (upon which we comment in a Professional Note on page 87). It is stated that the concessions are "of general application, but it must be borne in mind that in a particular case there may be special circumstances which will require to be taken into account in considering the application of the concession." We set out the additional concessions, together with one which ceased to operate during the year ended December 31, 1953. In our issue of March, 1954 (page 106), we reproduced the additional concessions given in the 96th report, together with those shown in that report as cancelled.

It is a pity that there must be this delay in publishing concessions. Would it not be possible to issue details at least twice a year through the professional Press?

INCOME TAX

Double taxation relief: building society interest

Paragraph 5, Sixteenth Schedule, Income Tax Act, 1952, provides that credit for overseas tax shall not exceed the sum arrived at by charging the doubly taxed income at a rate (generally known as the "effective rate") ascertained by dividing the United Kingdom income tax payable by the taxpayer for the year by his total income for the year. Interest received from a building society which has entered into the special arrangements under Section 445, Income Tax Act, 1952, is left out of account in calculating the effective rate.

Charities exempt from charge to income tax, Schedule D, Case VI: short leases

Charities are entitled to statutory exemption from tax on rents payable to them where the tax is chargeable under Schedule A or, in the case of rents under leases for periods exceeding fifty years, under Schedule D. In practice, exemption is also given from tax chargeable under Schedule D on "excess rents" under leases for shorter periods.

Extra statutory concession which has ceased to operate during the year ended December 31, 1953.

Christmas presents in kind to employees

The Chancellor of the Exchequer announced on December 15, 1953, in reply to a Parliamentary Question (*Hansard*, Vol. 522, Written Answers, cols. 23 and 24) that the special conditions which justified this concession during the war and in post-war years had largely ceased to exist, and that he would not be able to authorise its continuance after Christmas, 1953. (See ACCOUNTANCY for December, 1954, page 462.)

What has been withdrawn is the extension of the exemption of presents in kind to National Savings Certificates or savings stamps, and deposits in the Post Office or trustee savings banks, given in lieu of presents in kind.

Budget Memoranda

The Chancellor of the Exchequer has received many memoranda urging decrease in taxation. The *Engineering Industries Association* has been more modest in that its memorandum deals only with the legislation relating to expense allowances of directors and senior employees. It points out that the following are the main practical considerations involved in the administration of the legislation as it now stands:

1. Determination of the amount for which dispensation can be given excluding a round sum allowance from P.A.Y.E. deduction.
2. Examination of claims submitted for all round sum allowances after the end of the fiscal year.
3. Examination of information produced in support of expenses claimed by way of reimbursement (Rule 7 claims), after assessments under Schedule E have been raised for the full amount of the reimbursements.

The administration of the above falls mainly to the Schedule E District. The Association is strongly of the opinion that the necessary investigation should be carried out in the Schedule D District when the accounts of the employer are under consideration. The Inspectors dealing with the computation know the magnitude and nature of the transactions of the employer whereas the Schedule E department does not. They point out that there is no apparent reason why any expense found by the Schedule D department to be excessive should not be notified to the Schedule E department. They point out that the meaning and purpose of the restrictive wording regarding expenses is lost in obscurity and an opportunity might well be

taken to clarify the situation in this respect.

The *National Union of Manufacturers* are very forthright in their memorandum, which again demands substantial reductions in the rate of application of income tax on the grounds that this would provide the most general incentive. They also demand the complete abolition of the undistributed profits tax and a reduction of 2s. 6d. a gallon on petrol and oil. They hope that it will be possible to implement the recommendations of the Tucker Committee (No. 2) regarding pension provisions. On the subject of death duties, full scale inquiry is urged into the principle and impact; estate duty was last reviewed thirty years ago. Pending the investigation the Union asks for an extension of the reduced rates of duty for certain assets and suggests a limited extension to trading assets in the form of stocks and work in progress.

The *Association of Superannuation and Pension Funds* has submitted a memorandum on the report of the Tucker Committee (No. 2) on the taxation treatment of provisions for retirement. There is much in that report with which the Association are in agreement, but there are other points on which information or clarification is desired or with which the Association are not in agreement. The Association deal also with a number of proposals which they think should be amended to ensure that when legislation is introduced it will be as comprehensive as such a complicated subject permits. These three aspects are dealt with in considerable detail in their memorandum. The memorandum is so full of detail that a summary would not do it justice. We join with the Association in hoping that there will be a minimum of delay in implementing the recommendations of the Tucker Committee together with such amendments as are considered practical and advisable.

Profits Tax—Liquidation

In the last chargeable accounting period in which a trade is carried on, so much of any distribution made after the end of that period as is not a distribution of capital is deemed to be a distribution in the last chargeable accounting period. "Capital" here means the total nominal amount of the paid-up share capital together with any premium paid in cash for such share capital. If a company has made a bonus issue out of profit on or after April 6, 1951, such bonus shares are not deemed to be capital for this purpose and the amount applied in repaying them will be treated as a distribution. There are instances of companies which have been trading and have ceased to trade and have become investment companies. As investment companies they have not been liable to profits tax because of having had sur-tax directions. Nevertheless, if such a company goes into liquidation it will have gross relevant distributions for the last chargeable accounting period in which the trade or business was carried on. It seems that there is a sort of "hanging-over" of the gross relevant distribution in such cases until the company does go into liquidation. Anyone purchasing the shares of a controlled investment company, therefore, should be very careful to look into its history to see if there are possibilities of gross relevant distributions attracting profits tax in the event of the company going into liquidation.

Profits Tax—Meaning of "Director"

The definition of "director" for the purposes of profits tax includes any person in accordance with whose directions or instructions the directors of the company are accustomed to act. This arises from the Companies Act. There must be many instances in this country of subsidiary companies where the holding company might be a director within this definition. We wonder, however, how many of them are actually registered as directors or appear on the notepaper as such. It may be a matter of argument in many cases whether the holding company as such does direct. Can an impersonal body do so? There is nothing to prevent a limited company being a director, of course. The Companies Act recognises that one company may be the director of another. In a company controlled by the directors the fact that the holding company was treated as a director would have an effect on the gross relevant distributions as it is possible that the Crown could claim that a managing charge was in fact directors' remuneration. We should be interested to hear if any of our readers have had experience of this angle of profits tax.

Partnership Annual Charges

Since a partnership is assessed as a unit for income tax purposes, the profits kept in charge to tax within the terms of Section 169 of the Income Tax Act, 1952, can refer only to income of the partnership. Accordingly, if the annual payments of the partnership exceed the income brought into charge to tax there will be an assessment under Section 170 for the excess.

Similarly, if the annual charges of the partnership exceed the unearned income of the partnership, earned income relief will be given only on the amount of the earned income reduced by such excess. That is so even if the partners have earned income in some other capacity.

Double Taxation—U.S.A.

The Double Taxation Convention with the United States of America is extended, with modifications, to colonial territories by a Supplementary Protocol which was ratified on January 19. This is published as a Schedule to an Order in Council (S.I. 1955, No. 162—Her Majesty's Stationery Office).

Double Taxation—South Africa

The supplementary protocol to which reference was made in our issue of December, 1954, on page 462, has now been published as a Schedule to a draft Order in Council (the Double Taxation Relief (Taxes on Income) (South Africa) Order, 1955—Her Majesty's Stationery Office, 3d. net).

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT.

Income Tax

Partnership—Deed of dissolution—Indemnity to outgoing partner against all debts and liabilities of partnership—Whether indemnity extends to outgoing partner's share of income tax liability—Income Tax Act, 1952, Section 144.

Stevens v. Britten (C.A. October 18, 1954, T.R. 381) was by way of being a cautionary tale for solicitors and others concerned with the drafting of partnership dissolution deeds. Plaintiff and defendant had carried on business in partnership. On February 26, 1951, they made a deed whereby as from December 10, 1950, the partnership was dissolved and the defendant took over the whole of the partnership business, including goodwill. By clause 4 the defendant had covenanted to

> pay and satisfy all debts and liabilities of the said partnership and . . . at all times hereafter keep the retiring partner indemnified against the said debts and liabilities.

For the year 1950-51 an assessment had been made in the partnership name and *in March, 1954*, the Collector of Taxes had been paid by the plaintiff £37 9s. 6d. being his share of the total assessment, which Evershed, M.R., in his judgment said he understood to be in fact one-half of the total tax. The collector had marked the receipt as "on account." This the judge considered to be "somewhat inappropriately;" but it is obvious that the collector wished to intimate that by accepting one-half from the plaintiff he did not relinquish his right to collect the other half from him if the defendant failed to pay. Having paid the said sum the plaintiff had claimed that by virtue of Section 144 of the Income Tax Act, 1952, the tax in respect of the assessment for 1950-51 upon the profits of the partnership was a partnership debt or liability against which he was entitled to be indemnified under Clause 4 of the dissolution agreement. The County Court judge had found that the indemnity did not extend to income tax; but a unanimous Court of Appeal reversed his decision, there being agreement that by virtue of Section 144 there was joint liability for the partnership tax, each partner being jointly liable for the whole. The Master of the Rolls said that it was impossible, whatever might have been in the mind of the defendant, to read into the indemnity clause the words "other than income tax" and Romer, L.J., said words to the same effect. Hodson, L.J., said that the partnership income tax was none the less a debt of the partnership because the actual amount of tax for which the partners might be personally liable varied with the circumstances of each partner.

There are three points which may be noted in regard to this case. First, that the 1950-51 tax collected from the plaintiff was not collected until March 1954, and it is not stated when the assessment for that year had been made. The position would not, however, have been different if the year of assessment had been the earliest for which an additional assessment was possible. The second point is that plaintiff had paid one-half of the tax and it is unlikely that this was his computed share of the total partnership liability. The third point is the question how the tax ultimately borne by the defendant should be regarded for the purpose of allowing personal reliefs in view of the provisions of proviso (ii) to Section 223 of the 1952 Act, which is a re-enactment of a similar proviso in Section 20 of the 1918 Act:

> The income of a partner from a partnership . . . shall be deemed to be the share to which he is entitled during the year to which the claim relates in the partnership profits, such profits being estimated according to the provisions of this Act.

This question has particular relevance to claims for repayment in respect of personal reliefs.

Income Tax

Profits of office or employment—Professional cricketer—Sums collected following meritorious performances—Contractual right to invite subscriptions from spectators—Whether amounts collected profits arising from employment—Income Tax Act, 1918, Schedule E, Rule I—Finance Act, 1922, Section 18.

Moorhouse v. Dooland (C.A. December 15, 1954, T.R. 393) was the subject of an extended note in our issue of September, 1954 (page 350). The main features of the relationship between the respondent and the East Lancashire Cricket Club may be summarised. By a written contract dated August 27, 1949, he was engaged as professional for the two seasons 1950 and 1951. He was to receive a fixed salary of £800 for each year, the usual "talent money" and, in addition, by Clause 3, ". . . Coliections shall be made for any meritorious performance by the professional with bat or ball . . . in accordance with the rules for the time being of the Lancashire Cricket League." Finally, the whole agreement was expressed to be made subject to the rules for the time being in force of the League.

The most curious feature of these rules was that the "collections" were not thereby restricted to professionals. Every "amateur" who scored 50 runs or more in an innings or performed specified bowling feats was also to be entitled to take his cap round although as Harman, J., had said in the lower Court: "How he retains his amateur status is not a matter for me." Needless to say, this strange feature of the League rules was made much of for the respondent and Harman, J., had said: "The fact that an amateur may become entitled explodes the theory that this right arises to the professional by contract." This opinion was not shared by any Judge in the Court of Appeal. Upon five occasions in 1950 and eleven in 1951 collections had been made, resulting in an undetermined amount estimated for the latter year to be about £48; and it was in respect of this sum that the dispute arose. The Revenue claimed that it was a profit arising from the respondent's employment whilst for the latter it was contended to be a case of mere personal gifts governed by the decision of the House of Lords in *Reed* v. *Seymour* (1927, A.C. 554; 6 A.T.C. 433; 11 T.C. 625). That case was one where a non-contractual "benefit" had been given to a Kent professional cricketer towards the end of his career and the Revenue's claim to tax had been rejected, although it had been restricted to the amount collected on Seymour's behalf by his Club despite that an equally large sum had been collected by his supporters on the ground and elsewhere. Here, the collections were of the latter character but, as had been made clear in the *Seymour* judgments, there was no valid distinction in principle between the two kinds of contribution.

The General Commissioners, by a majority, had found in favour of the respondent in the following terms:

> 8. After due consideration of the facts and the arguments submitted to them the Commissioners, by a majority, were of the opinion that the collections in question were not a profit arising from the respondent's employment within the meaning of the statutes but were given as testimonials to his abilities.
>
> 10. The question in law for the opinion of the High Court is whether on the evidence before them the Commissioners were entitled to hold that the collections in question were not a profit arising from the respondent's employment within the meaning of the statutes.

Harman, J., applying the test formulated in the judgment of Atkin, L.J., in *Cowan* v. *Seymour* (1920, 7 T.C. at p. 351) for determining whether a question was one of fact or law, had held that on the facts of the case before him the Commissioners' finding amounted to one of fact with which he could not interfere even if he disagreed; and in caustic criticism of the Revenue claim he had left no doubt about his own opinion. Nevertheless, as pointed out in the writer's previous note, there was at stake an important income tax principle, and although in the Court of Appeal the Crown had another stormy passage, the ultimate result was unanimous reversal of Harman, J.'s decision.

Evershed, M.R., Jenkins and Birkett, L.JJ., all gave separate judgments and although the last-named declared that he was in full agreement with both of his brethren it would seem that they all differed between themselves upon an important point. The Master of the Rolls was obviously of opinion that if the Commissioners' decision had been clearly expressed as a finding of fact the Court could not have interfered. (Referring to paragraphs 8 and 10, reproduced above, the former without the latter would apparently have fulfilled this condition.) Jenkins, L.J., upon the other hand, held that:

> the question involved is essentially a mixed question of fact and law which was open to Mr. Justice Harman and is open to this Court, and which was correctly stated by the General Commissioners . . . (i.e. in paragraph 10),

whilst Birkett, L.J., said it was the terms of the contract which made it impossible in his view to support the judgment of Harman, J. The respondent's legal right to the collections seemed to him to be decisive. On this footing, the question was entirely one of law. In the Master of the Rolls' judgment he declared that "unless precluded by a contrary finding of the General Commissioners" his own conclusion on the facts was that the collections constituted "in truth and substance" part of his professional earnings and could not fairly be called mere personal presents; and he said he put this conclusion in the form it was put by Jenkins, L.J., during the argument:

> If the question had been asked of Mr. Dooland at the end of the 1951 cricket season what his earnings as the East Lancashire cricket professional were, an answer which ignored altogether the proceeds of the collections would by ordinary standards of common sense and accuracy have fallen short of the truth.

In view of this declaration, it would seem that the hard things said about the Revenue's claim because the *immediate* amount of tax involved was "only a little one" were scarcely merited. All three judges were unanimous that in such cases the question of taxability had to be determined from the standpoint of the recipient alone; and the two longer judgments, those of the Master of the Rolls and of Jenkins, L.J., are valuable analyses of the present legal position.

The Student's Tax Columns

BUILDING SOCIETY INTEREST

THE TREATMENT of building society interest seems to puzzle many students. In the original plan of building societies, the investors and borrowers were all people with small incomes. To avoid borrowers having to pay income tax as a result of having to deduct it from the interest paid to the society, and to avoid investors having to make repayment claims, the convenient arrangement was made that the building society should pay tax on its income paid to investors at rates which would make the tax paid approximate to what the investors would have paid on average had they been liable on the income; and borrowers do not deduct tax when paying their interest.

It is provided that investors cannot reclaim any tax on the interest received; borrowers are entitled to reduce their income by the interest paid and reclaim the appropriate amount of tax.

The actual amount of the interest received is regarded as part of the total income for the purposes of calculating reliefs such as old age relief and life assurance relief and for the purposes of Section 169, Income Tax Act, 1952. For sur-tax purposes, however, it must be regarded as a "net" receipt and grossed up.

Illustrations:

(In each case the taxpayer has no income other than that shown):

(1) Single man, insured for £5,000, premium £200

Earned Income		£900
Dividends		100
Building Society Interest (B.S.I.)		40
		£1,040
National Insurance Contribution (N.I.C.)		9
Total Income		£1,031
Deduct:		
Earned Income Relief (E.I.R.)	200	
Personal Allowance (P.A.)	120	
B.S.I.	40	
Life Assurance Relief (L.A.R.) —maximum premium 1/6× £1,031=£172)	69	
	—	429
		£602

First £400		£102 10 0
Balance £202 @ 9/–		90 18 0
		193 8 0
Paid by deduction £100 @ 9/–		45 0 0
Payable on earned income		£148 8 0

This would be assessed thus:

Earned Income		£900
N.I.C.	9	
E.I.R.	200	
P.A.	120	
L.A.R.	69	
		398
		502
£400		£102 10 0
£102 @ 9/–		45 18 0
		£148 8 0

(2) Married Man:

Earned Income		£900
House N.A.V.		40
B.S.I.		50
		990
Loan Interest paid		75
		915
N.I.C.		9
Total income		£906

Tax payable:

Earned Income		900
N I.C.	9	
E.I.R. & P.A.	410	
		419
		£481
£400		102 10 0
£81 @ 9/–		36 9 0
Sch. A, £40 @ 9/–		18 0 0
		156 19 0
Tax recouped £75 @ 9/–		33 15 0
Tax borne		£123 4 0

Proof:

Total Income		£906
E.I.R.	£200	
P.A.	210	
		410
		496
Less: B.S.I.		50
		£446
£400		£102 10 0
£46 @ 9/–		20 14 0
		£123 4 0

Although no tax is payable on the B.S.I. it is regarded as covering £35 of the loan interest paid (the balance £40 being covered by the N.A.V.).

(3) Married man:

House		£40
Earned Income		540
B.S.I.		20
		600
Loan Interest paid	79	
N.I.C.	9	
		88
Total Income		512
E.I.R. 2/9×512=	114	
P.A.	210	
Child	85	
B.S.I.	20	
		429
		£83
Tax to be borne £83 @ 2/6 =		£10 7 6

Tax payable:

House £40 @ 9/–			£18 0 0
Earned Income	£540		
N.I.C.	9		
Reliefs	409		
		418	
		£122	
£83 @ 2/6	£10 7 6		
£39 @ 9/–	17 11 0		
			27 18 6
			45 18 6
Less: recouped £79 @ 9/–			35 11 0
Borne			£10 7 6

Here again, £20 B.S.I. plus £40 N.A.V. leaves only £39 of the loan interest to be met out of earned income and kept on charge at 9/–. The effect on the E.I.R. should be noted.

(4) Married Man:

House		£40
Less: B.S.I. paid		22
		18
Earned Income		900
		£918

Tax will be payable on £918 less allowances in the usual way. The B.S.I. relief will be given in the Schedule A assessment.

(5) Had the B.S.I. payable been £51:

House		£40
Less: B.S.I.		40
Earned Income		£900
Less: Balance B.S.I.	£11	
N.I.C.	9	
		20
		£880

Reliefs will be given against £880, the E.I.R. being restricted to two-ninths of £880.

(6) Married tax-payer over 65 years of age:

Earned Income		£180
B.S.I.		40
Other unearned income		410
Total income		£630
E.I.R.	£40	
P.A.	210	
B.S.I.	40	
	290	
		£340
£100 @ 2/6		£12 10 0
£150 @ 5/–		37 10 0
£90 @ 7/–		31 10 0
		£81 10 0

But with marginal relief:

Total Income			£630
Margin		30×5/8 =	18 15 0
			600
Age Relief	£134		
P.A.	210		
B.S.I.	40		
		384	
		£216	
£100 @ 2/6			12 10 0
£116 @ 5/–			29 0 0
			£60 5 0

Here is another example of reliefs being given in the taxpayer's favour. The B.S.I. is regarded as part of the £600, not of the excess. The age relief is therefore:

£134–£40=£94 additional reliefs:	
£90 @ 7/– =	£31 10 0
£4 @ 5/– =	1 0 0
	32 10 0
Less: Increased tax on £30 at 7/6 in £ (½ of £1 is 12/6, which less 5/– = 7/6)	11 5 0
	£21 5 0

As usual, reliefs go first against the income taxed at the highest rate. The effect of age relief is to wash out first the £90 taxed at 7/– in the £, then dilute the income charged at 5/– in the £.

The *Fonadek* telephone amplifier is a small electronic device which makes it possible to use both Post Office and internal telephones without the need to hold a receiver. Both hands are thus free to turn over papers or to take notes, and the irritation of having to "hold on" is eliminated. Normally other persons in the room can hear both sides of the conversation, but privacy can be maintained if desired.

The device is manufactured by *Fonadek* (*Branson*) *Ltd.*, of Birmingham, London, Manchester and Glasgow.

The same company produces the *Permapad*, which comprises eight separate reminder strips, each easily torn off when dealt with. The *Permapad* holds over 1,000 memos at one filling. The price is £2 2s., and refills are obtainable.

Points From Published Accounts

Unfair and Untrue

"SURELY, WITHIN REASONABLE limits, the proprietors of the business are entitled to know the truth about their company's affairs and finances?" This is the theme of a long letter from a reader published in a recent issue of the *Investors' Chronicle*. It is inspired by an earlier article in which the *Borax Consolidated* Board was defended by the oblique method of criticising company legislation. "Can directors and auditors," said the author of this article, "put their hands on their hearts after these recent incidents and say they're completely satisfied with the existing state of affairs?"

The Board of Borax Consolidated received a bid from America for its deferred shares (and for its fixed dividend capital) at a price far above what had ruled before the rumourmongers got to work last year. Indeed, it might not be far wide of the truth to say that the shares would have been standing considerably below their present level if there had been no bid. The Board's repelling steps included an interim profits statement and a forecast of a much larger dividend, a refusal to supply information to the Americans, and a lengthy letter to shareholders revealing the market worth of a trade investment, an up-to-date valuation of certain assets, and a rosy picture of the future. And according to a report the Board is preparing an illustrated brochure for shareholders to tell them more than they have ever known about their undertaking. Though the Americans have withdrawn from the scene the price of the shares keeps at a price far beyond what shareholders could have expected from the last accounts.

Now the *Investors' Chronicle* correspondent is critical of the accounts of a leading insurance company in which he is a shareholder, and he goes to interesting lengths to support his evident belief that they give an untrue and unfair view of the state of affairs. Thus, he calculates that shares in a subsidiary which are included in "shares in subsidiaries not consolidated, £1,378,289" are worth £40 million, or roughly 7/17ths of the share price. Then he calculates from published market figures that the "capital and surplus" in the United States are worth £10 per share. Though he does not say so, this leaves the rest of the business valued at nothing. But he does say this:

> Part of this company's auditors' report is couched in the following terms. "Subject to the foregoing, in our opinion such consolidated balance-sheet and consolidated profit and loss account have been properly prepared in accordance with the provisions of the Company's Act 1948, as *applicable to assurance companies and as modified by the Board of Trade* and in the manner indicated therein a *true and fair view* respectively of the state of affairs, etc., etc." (My italics.) Well, well! There it is—within the Companies Act and under the cover of the Board of Trade umbrella! But a true and fair view for the average shareholder is, I think, another question.

Ought not this state of things to worry the accountancy profession? The principals in this unmasking have been Messrs. Clore, Samuel and Wolfson with their take-over bids. The "back-room boys" of the Stock Exchange, too, are always on the look-out for what they describe as "special situation stocks." The special situation usually starts from the premise that the accounts give an untrue and unfair view of the state of the company's affairs! There is, of course, no universal panacea, yet no limit, apparently, to what lengths companies can go under the protection of that phrase "Subject to the foregoing . . . ."

Trading Profits After . . .

Following on the preceding paragraph we have the increasing practice of showing trading profits after charging a long list of items, which are set out in parenthesis, as it were, and very often not even sub-totalled. The present writer may be a voice in the wilderness, but he will continue to assert that there is no reason why these deductions — depreciation, directors' emoluments, auditors' remuneration, etc. — cannot be sub-totalled, and every reason why shareholders should be told the balance brought down from trading account without having to work it out for themselves.

Steel Debut

Stewarts and Lloyds has gone to pains to make its first post-denationalisation accounts as clear as possible. One of the interesting features is the segregation of the accounts of the oversea subsidiaries from those of the rest of the group. This means three separate columns: (1) the parent and U.K. subsidiaries, printed on a grey background; (2) the oversea subsidiaries, printed on a pale blue background; and (3) the group totals on a yellow background. The company shows the trading profit after various deductions and after crediting loan interest and income from investments, but at least these debits and credits are separately sub-totalled.

As a result of the capital reorganisation the loan and Preference capital does not rank for a full year's remuneration. The company therefore shows stockholders in a footnote what the annual cost of servicing these prior charges would be, both gross and net, and sets against the figures the amounts actually charged in the accounts. The consolidated balance-sheet is in tabular form, and apart from what has been stated there is nothing remarkable about it, which is only to say that it is very clear indeed. The coloured backgrounds are particularly helpful.

Statements of Profit and Loss

We have commented before (see ACCOUNTANCY, March, 1952, page 110, and March, 1953, page 97) upon the Statement of Profit and Loss which is used by *Weyburn Engineering*, and, incorporated in the directors' report, takes the place of the profit and loss account. This is a sound idea, because those of us who are constantly handling published company accounts know full well that the directors' report is usually of little value to shareholders at all.

Another novel feature of the report is a series of analyses. The first shows the burden of tax, and the second how the retained net profits have been used. The third examines current assets and liabilities over a four-year period, expressing current assets as a percentage of current liabilities and breaking up the current assets percentagewise. The fourth shows net profits after tax, Preference and Ordinary dividends and retentions, and expresses the percentages alongside the individual figures. For full measure there is the chairman's speech, with his signature appended.

The odd feature is the balance-sheet transposition, capital and reserves being shown on the right-hand side, while on the left-hand side appear fixed assets, and current assets less current liabilities, while from the sub-total is deducted

future tax and the tax equalisation account. There is plenty in these accounts to rouse interest.

Smokescreen

This is going to be a complicated note to write, but follow us closely and sympathetically if you will. The latest accounts of *Sobranie Holdings* are made up to July 31, 1954, so that they are a good deal out-of-date. Now on February 1, 1954, the parent became a holding company, and a new wholly-owned subsidiary was formed and took over the trading operations from that date. The directors report that the consolidated accounts do not incorporate the trading figures of this new company which "had not completed its first full trading period, nor drawn up accounts at July 31."

This means that the largest item in the latest consolidated balance-sheet is the investment in the subsidiary, which is brought into the accounts at £201,976. It means also that the group balance-sheet total has dropped from £519,219 to £267,211, as the £201,976 can be broadly described as representing the net assets of the subsidiary. The poor shareholder will be thoroughly mystified, and perhaps demoralised, as he has only the group figures for the preceding year-end as guidance on the financial position. He will ask in vain whether the £19,000 mortgage has been repaid or taken over by the subsidiary, and whether the £108,718 bank overdraft has been reduced or increased, and his only consolation is that the formation of the new company has apparently resulted in the release of £17,788 tax reserves no longer required.

The group profit and loss account shows a fall in trading profits from £19,519 to £12,587, and the chairman expresses regret that "the accounts still continue to show a picture which we must all regard with some disappointment." There is only the brief reference in the accounts to the fact that the consolidated accounts do not incorporate the trading figures of the new company, (the chairman states that the accounts contain a half year's trading results "for your company"), and shareholders are left to deduce from this that the latest group profits are virtually for a six months' period only. This seems to be a case where the auditors might have been asked to assist in preparing the chairman's speech. What is very clear is that shareholders with limited knowledge of accounting will jump to the wrong conclusion that profits have slumped by nearly £7,000.

The Month in the City

Less Buoyant Markets

Towards the end of January, Bank Rate was raised by half a point and that evening the industrial Ordinary share index touched a new high. There was a very slight reaction in most fixed interest stocks, but it was evident that the rise had been largely discounted. Indeed, some days before the event, gilt-edged jobbers had been saying that a rise of half a point would be a bull point for the market; and although this proved unduly optimistic the fall since the rise in rate has so far been under two points as against a drop of over four points in the preceding two months. In fact since then the Ordinary index has touched a new high of 197.5. If rather hesitantly, this index continued upward despite rather alarmist views of the possible outcome of renewed friction in the Far East. It was only at the time of the internal changes in the U.S.S.R. that there was a definite setback, and from this recovery was rapid. It would, perhaps, be a mistake to attribute the sudden weakening to the development in Russia. It is quite possible to regard that as a sign of internal weakness rather than as a herald of external aggression, and it is more reasonable to look for the explanation of an occasional reversal of this strong upward trend nearer home. The fact is that the effect of the half point rise in Bank Rate on our longer-term balance of payments position has not been altogether satisfactory. Sterling has remained rather weak, despite some influx of balances, and the covering of these transfers on the forward market has resulted in the emergence of a premium on the forward dollar for the first time for many months. It is difficult to get any clear picture of our visible trade owing to continuing distortions arising from the dock strikes, but the figures do not look too good, and it is to be noted that by mid-February Mr. Butler was talking of the need for further expansion in exports and for Government precautions to secure that the demands of the home economy do not conflict with this.

The Domestic Scene

The mathematical results of a rise in bank rate from 3 to 3½ per cent. are not necessarily great, except for the money market. The rate for the weekly Treasury bill tenders had risen from under 32s. per cent. to over 40s. before the official move, which itself produced a further increase of over 6s. There was however a tendency for the rate to weaken as the weeks passed with no sign of the further half point being added to raise the official minimum to 4 per cent. Meanwhile, the full fruits of the surrender to the railwaymen were coming in, and with industry faced with a whole string of demands for higher wage rates and the cost of living already on the upgrade once more the outlook is certainly such as to suggest increasing inflation. It is to be doubted, however, whether that would be considered a reason for marking down equities. In so far as the market for these has been shaken at all, the reason is probably a mixture of fears that the Budget will be less "soft" than had been expected and that the general election may be nearer than had been supposed. The net effect on prices can be summarised by saying that, while fixed interest stocks fell rather more heavily than in the preceding month, industrial Ordinary shares rose rather less, but that there was some recovery in gold mining shares. This is reflected in the following changes in the indices of the *Financial Times* between January 18 and February 15: Government securities from 103.18 to 100.30; fixed interest from 115.52 to 112.14; industrial Ordinary from 192.4 to 193.5; and gold mines from 92.00 to 92.79.

Steel Issues

The sale of *Colvilles* was of course a resounding success and it is scarcely surprising that it was followed quickly by another offer. In this case the operation was a small one, the sale of *Whitehead Iron and Steel*, one of the best known of the re-rollers, and in pre-vesting days a popular favourite. With the change of scale the technique of so-called "firm underwriting" and of issue by the consortium were considered unsuitable and a normal issue was made

by *Baring Brothers*. The offer of £1,250,000 shares was covered 28 times and applications from the public were subject to a ballot in which each prize was 50 shares. Even so the bulk of the shares will go to the public. The old shareholders individually received much better treatment, but in their case all large applications were cut to 4 or even 3 per cent., so that the institutions were ready buyers, and a substantial premium was early established. There remain several issues of moderate size, some in companies less well known than Whitehead, and it is likely that these will be offered by individual issuing houses as opportunities arise. Meanwhile, the South Wales group remains to be dealt with and will, presumably, require the keeping in being of the consortium. It is commonly supposed that no attempt will be made to sell this group to the public until after the general election. Prospects for success are substantially increased by the fact that, while *Richard Thomas* and *Baldwins* showed only a partial recovery in profits for the year to October 2 last, the figures of the *Steel Company of Wales* were more than double those of 1951–52 at over £8,250,000. While there is no statement available as to the future, it seems certain that the expansion in demand for tin cans has still a long way to go and that there will be little difficulty in disposing of all possible output either in tinplate or as lightweight sheet.

Assam Company Scheme

Efforts of an Indian group to acquire control of the *Assam Company*, not by a take-over bid but by buying shares in the market, have been frustrated for the moment by a scheme put forward by the Board. Under this one-third of the total voting rights were transferred to trustees of the pension fund, with the result that to obtain voting control the Indian interests would have had to acquire over 75 per cent. of the shares available in the market. It is, perhaps, rather surprising that the shareholders voted for this change by large majorities. But in response to some criticism it was agreed that the voting rights on the new shares should be reduced after seven years. The next move is with the Indian interests and it is understood that they will apply for a Board of Trade inquiry. The method adopted by the directors is strongly reminiscent of the *Savoy Hotel* case, but in this instance the consent of the shareholders has been secured before there was any serious threat to the present Board. As the voting suggests that the opposition exceeded 10 per cent. of the total voting rights on the old basis it is very probable that the inquiry will be held and it will be interesting to see the outcome. Meanwhile, whatever happens under that head, some British interests in India deprecate an action which may inspire reprisals from the Indian authorities.

Readers' Points and Queries

Signing of Return Forms

Reader's Query.—We have recently received a communication from a local Inspector of Taxes stating that we are not allowed to sign a Form No. 1 on behalf of a partnership.

We have, in the past, been accustomed to signing these Returns on behalf of clients whether partnerships or limited companies, stating that we sign as "Agents."

Your comments would be appreciated on this point as we understood that the very nature of our relationship with the clients concerned made us agents, thus empowered to sign these particular returns.

Reply.—Section 144 (2) lays the responsibility for signing the partnership return on the precedent acting partner. It is only where no partner is resident in the United Kingdom that it has to be made by an agent, manager or factor resident in the United Kingdom (Section 144 (3)). The Inspector of Taxes is therefore justified in refusing a return signed by an agent if the partners are resident in the United Kingdom. In any event, we do not regard it as proper for an accountant to undertake the liability of signing returns in such circumstances.

Partnership Changes and Losses

Reader's Query.—I refer to the article in the January issue of ACCOUNTANCY (pages 19-20). I note that in computing the terminal loss a reduction was made of £50, viz.: profit 6.8.53 to 5.10.53 2/12 × £300. I have been under the impression that although a terminal loss is normally computed by reference to the adjusted loss of the last twelve months of the business, any accounts that show an adjusted profit are ignored in such computing. If this is so, I should have thought that the terminal loss would have been computed as follows:—

	£
Loss 6.4.54 to 5.8.54 4/12×£3,600=	1,200
Loss 6.10.53 to 5.4.54 6/12×£3,600=	1,800
Profit 6.8.53 to 5.10.53—Ignored	—
Carried forward	3,000
Brought forward	£3,000
Capital Allowances unused 6.4.54 to 5.8.54	130
Terminal Loss	£3,130

A.'s share being 1/3 (3,130+1,500 (salaries)=£1,544 and that this terminal loss claim could be utilised by A. as follows:—

	£
1953-54	380
1952-53	940
1951-52	224
	£1,544

Reply.—Section 18 (5) of the Finance Act, 1954, indicates how the terminal loss is to be arrived at, including the loss in the part of the penultimate year of assessment beginning twelve months before the date of the discontinuance. Sub-section (6) says that for this purpose the amount of a loss has to be computed in like manner as profits under the provisions applicable to Cases I and II of Schedule D. If a profit falls within the period in question the loss for the period must be the net figure after taking into account that profit. It is exactly the same principle as arises under Section 128 of the Income Tax Act, 1952, in the case of a new business. If the first account is for less than a year it is necessary to take into account enough of the next accounting period's profits to build up a year from the beginning in order to arrive at the assessment in the second year. This is termed the "period of computation."

Publications

Tax Planning with Precedents. By D. C. Potter, LL.B., Barrister-at-Law and H. H. Monroe, M.A., Barrister-at-Law, assisted by H. G. S. Plunkett, Barrister-at-Law. Pp. xxiii+304. (*Sweet & Maxwell Ltd.:* 45s. net).

IN THESE DAYS of high taxation, business men and professional men are constantly hearing of their friends' schemes to reduce their taxation liability. Deeds of covenant to children of age or married or to grandchildren, and dispositions of shares in private limited companies intended to avoid a valuation of assets for estate duty under Section 55 of the Finance Act of 1940, are the most common methods employed. Practitioners must be prepared to advise on these questions and to do so quickly and with confidence. This book will be of enormous help in these matters. It is easy to read through the explanations of the principles of the various methods of "tax planning" and so obtain a broad understanding, but the book will be best used for reference to the precedents set out. Those accountants who would otherwise be unsure of the exact legal requirements necessary to obtain the best results out of "tax planning" will now be able to advise their clients without recourse to legal advice in the early stages.

The index will give immediate access to the solution of almost every problem on these matters: to show the full scope of the book, the chapter headings may be listed. (It would be surprising if many practitioners had previously realised the full possibilities of tax planning.)

Method	*Number of Precedents*
Deeds of covenant ..	10
Deed of separation ..	1
Infant settlements ..	10
Discretionary trusts ..	3
Variation of existing settlements	4
Partnerships	3
Pension Schemes (including top-hat scheme) ..	4
Wills	5

The chapter on pension schemes seems to the reviewer to be the best, perhaps because its underlying idea is to fit the scheme positively into the existing law—in contrast to the somewhat negative approach of some of the schemes, to avoid the clutches of the law.

The authors perhaps seem overconscious of the fact that their book is intended to help in reducing personal tax liability, principally by spreading the income over the family. They mention the view (naturally, not one to which they subscribe) that "any attempt which a man makes to reduce the burden of tax, regardless of the character he adopts, is an anti-social act deserving unqualified condemnation." That view is a very distorted one, and the Inland Revenue would certainly not share it. There is, nevertheless, a danger that schemes may be hatched which have the legal appearance of being genuine, but are, in fact, bogus. Schemes of this kind will probably occur to lay-readers and for such readers the book may be rather dangerous: accountants may have some explaining to do in order to dissuade sur-tax payers who are too keen on the idea of reducing their liability. The authors, however, are also conscious of this danger and say "let indignation be . . . lavished upon those . . . who . . . create a fictitious form in order to avoid the liability attaching to the disposition which they have in reality effected."

P.A.S.

The Elements of Management Accounting. By C. E. Sutton, A.S.A.A., F.C.W.A. Pp. 15. **Management by Budget.** By P. N. Wallis, A.S.A.A. Pp. 38. (*Society of Incorporated Accountants, London:* 4s. net each.)

"MANAGEMENT ACCOUNTING" IS the title given to a sphere of accounting activity that still is something of a mystery to many members of the profession. Whether this branch of accounting technique has been over-emphasised in recent years is not a matter to be considered here. What is certain is that its underlying principles are essential not only to accountants in industry, but also to the practising accountant who seeks to present his clients with a critical analysis of past results and future prospects.

Mr. Sutton's booklet, prepared for the Incorporated Accountants' Research Committee, can be recommended to all practising accountants. It is a well-written statement of the underlying principles and objects of management accounting. To the accountant already conversant with those principles, it can be recommended as an aid to self-examination. So often are we carried away by the fascination of figures, that the objectives for which the information is prepared are sometimes overlooked. Mr. Sutton's lucid paper may be said to be a wind from the right quarter to put us back on course. As an appendix there is an admirable chain of operating statements linking the statement prepared for the foreman with the profit and loss account placed on the managing director's table, and having the merit of being sufficiently straightforward for both to understand.

Mr. Wallis's booklet, also prepared for the Incorporated Accountants' Research Committee, can perhaps be described as a sequel to Mr. Sutton's *Elements*. It deals in simple language with the most important function of management accounting—planning by budget and control by comparison with standards. Here we have a paper that can be read in an hour, contains clear thinking about underlying principles, and gives illustrations showing how those principles are put into practice. Mr. Wallis has undertaken the difficult task of condensing a vast subject into a short paper. He has succeeded in giving an adequate practical demonstration of the important processes of budget preparation and subsequent usage during the financial period to test the efficiency of labour, material consumption and machine utilisation.

Many and varied have been the books on management accounting subjects, but to both the initiated and the veteran here are two short works that can be read and digested easily with considerable benefit, particularly when it is recognised that the experience of years is condensed into two volumes at the price of eight shillings the pair. W.W.S.

Financial Aspects of Industrial Management. By G. D. Bond, F.C.I.S. Pp. ix+530. (*Butterworth & Co. (Publishers), Ltd.:* 40s. net.)

ACCOUNTANCY HAS LONG left its earlier role of recording the financial activities of industry and commerce. Today, the accountant concerns himself with costs and their control, production and financial policy, work study and measurement, industrial relations—in short, with a good many matters making up the art of industrial management. The author of this book states that management accounting is not divorced from financial accounting: both are "essentially parts of the controllership function . . . . which includes the administration of financial policy." If this is so, then the reader must be shown the relationship between the principles of industrial

management and the techniques of modern accounting. Let it be stated at the outset that the author has succeeded in demonstrating this relationship and in proving that management and financial accounting, being part of the controllership function, provide for the correct procedure to be followed financially in the sphere of industrial management.

With what must have required considerable effort and skill, Mr. Bond describes and discusses those principles of industrial organisation concerned mainly with the achievement of satisfactory results. Most of this may be familiar ground to the accountant; but a lesser-known part of the discussion is on job grading and rating—a subject which assumes a growing importance in this economy of full employment and ageing population.

The second section covers financial and cost accounting. Some of the details could usefully have been omitted. Surely there is no need to describe double entry and trial balance in a work on managerial policy. Conversely, there is much more in the principles of financial accounting than is indicated by the author. The limitations of accounting practice are mentioned, but the more positive principles are virtually ignored: one looks in vain for a discussion of the difference between "going concern" and "break up" value, let alone some consideration of the whole highly significant problem of value as considered by the modern accountant. Very little principle is brought out in the chapter on statutory accounts; it merely recapitulates the provisions of the Companies Act. Much more to the point is the discussion on financial analysis, for if used properly this is a well-tried process for bringing out some of the salient features of accounts for the purposes of interpretation and action. The treatment might have been expanded here to include the calculation of cash budgets and working capital requirements, two essentiai manifestations of the controllership function. But the "liquid margin budget" described by the author is a particularly useful idea.

The discussion on basic financial policy includes interesting material on depreciation and changing prices; the base, L.I.F.O. and F.I.F.O. methods of stock valuation; and price fixing. The chapter on insurance could have been omitted, for it adds little to the author's purpose.

The financial structure of companies is treated with a well illustrated discussion on the different types of share and loan capital. The Report of the Gedge Committee on No-Par-Value Shares is summarised and a good deal is said on such financial matters as the sources of capital, reconstruction, holding companies and group taxation. A chapter is even added on share valuation with some of the more usual methods of valuing goodwill.

Mr. Bond has produced a very comprehensive work covering the more important industrial, accounting, financial and investment topics—a small encyclopaedia of commercial and industrial practice. His excellent book would the more nearly achieve its objectives, however, if in the next edition the author would discard much descriptive matter that is good but not appropriate to his task, and would concentrate more upon the planning and execution of the financial policies upon which sound industrial management rests. V.S.H.

Guide to Examination Success. By Frank H. Jones, F.A.C.C.A., A.C.I.S. Third edition. Pp. 60. (*Barkeley Book Co. Ltd., Stanmore:* 5s. net.)

THERE ARE three main factors making for "Examination Success." Firstly, the correct approach to study: an appreciation that study is only a means to a chosen end, and the examination but a demonstration of skills and knowledge acquired. A full sense of professional vocation should provide sufficient impetus on its own to carry the accountancy student successfully through his pre-Final studies.

Then there is the type of tuition best suited to the individual, allied with an effective technique of study, and, thirdly, wise use of time in the examination.

Mr. Jones might have laid more emphasis than he does on the last factor. Rigid time control in the examination room is imperative—the candidate suffers badly if he leaves answers incomplete solely for lack of time. Mr. Jones relegates it to the reader to conclude that an essential in the production of a well-arranged, logically marshalled answer is that the examinee should spend a few of his precious minutes in planning what he is going to say *before* putting pen to paper. And the jotting down of relevant points, so easily forgotten in examination conditions, which occur to the examinee during the first quick reading of the paper, is a point worthy of mention. These criticisms apart, Mr. Jones deals adequately and sympathetically with the problems, and provides a quite full and useful summary of hints and aids.

But it is on the first factor that students most often lack advice, and this is where the value of this booklet lies. Mr. Jones spends eighteen pages urging the attitude from which success most naturally emerges. No student who reads these lines will find his time has been wasted. M.H.W.

Books Received

Costs, Plans and Prices. By D. Solomons, B.COM., A.C.A. Pp. 12. Practice Notes No. 31. (*Incorporated Accountants' Research Committee, London:* 2s. net)

Green's Death Duties. Third (Cumulative) Supplement to Third Edition. By H. W. Hewitt, LL.B. Pp. xii+46. (*Butterworth & Co. (Publishers), Ltd.:* 7s. 6d. net.)

The Element of Transport. By Leslie A. Schumer, M.INST.T., Fellow of the Australian Society of Accountants. Pp. xii+196. (*Butterworth & Co. (Publishers), Ltd.:* 17s. 6d. net.)

County Council of Northumberland. Abstract of Accounts for the year ended March 31, 1954. (*County Treasurer, County Hall, Newcastle upon Tyne,* 1.)

City of Johannesburg. Abstract of Accounts, 1953-54. (*City Treasurer, P.O. Box* 1450, *Johannesburg.*)

Worsted Spinning Costs. By F. Sewell Bray, Stamp-Martin Professor of Accounting, Charles Smith and D. R. Bedford Smith. Pp. 42 and three appendices. Reprint Series No. 8. (*Published for the Stamp-Martin Professor of Accounting by the Incorporated Accountants' Research Committee:* 5s.)

Trustee Savings Banks Year Book, 1954. Official Handbook of the Trustee Savings Banks Association. Pp. 176 (*Issued for the Association by Wyman & Sons Ltd., Fakenham, Norfolk.*)

Hire Purchase and Instalment Charges Ready Reckoner. (*Compiled by G. W. Fraser, 6 Grosvenor Terrace, Teignmouth, Devon:* 2s., or 1s. 6d. for three or more copies, post free.)

Die 1954 Inkomstebelasting-Wysigings soos dit boere raak. By A. S. Silke, M.COM., C.A.(S.A.). In Afrikaans. Pp. 26. (*Juta and Co. Ltd., P.O. Box* 30, *Cape Town:* 8s. 6d. net.)

Elements of Insurance. By W. A. Dinsdale, PH.D., B.COM. Second Edition. Pp. xv+184. (*Sir Isaac Pitman and Sons Ltd.*: 12s. 6d. net.)

Talking of English. By P. E. Smart. Being five articles which appeared in the *Journal of the Institute of Bankers* from December 1953 to June 1954. Pp. 47. (*Institute of Bankers, 10 Lombard Street, London, E.C.*3: 2s. 6d. net.)

Legal Notes

Company Law—
Date for Conversion of Currency

It will be a sad day for lawyers when there are no more points of law to be decided about the affairs of Russian companies dissolved under Russian law in 1917 and 1918. The Russian Commercial and Industrial Bank had an English branch which after the company's dissolution in Russia continued to carry on business until an order was made in 1922 for the compulsory winding-up of the bank. At all material times R. had a credit account in roubles with the English branch and in **Re Russian Commercial and Industrial Bank** [1955] 2 W.L.R. 62, the question arose whether these roubles should be converted into sterling at the rate of exchange current at the date of the dissolution of the bank in Russia or at the date of the presentation of the winding-up petition in England.

Wynn-Parry, J., said that in a winding-up in England a proof for a debt expressed in a foreign currency must be for a sum in sterling converted as at the date when the debt became due and that in general a debt from a banker to his customer became due when a bank was dissolved, for the relationship of banker and customer then ceased. But for the purposes of the liquidation the dissolution of the bank must be ignored. A customer of the bank to whom money was owing on current account at the date of dissolution could obtain payment only by proving in the winding-up, and if he proved in the winding-up he must accept that the dissolution was to be treated by the liquidator and by the Court as not having taken place. Accordingly for the purposes of the liquidation the debt became due only when the liquidation started and the rate of exchange must be that current when the petition was presented.

Company Law—
Quorum

In the note in our last issue (page 78) on the case **Re Hartley Baird Ltd.** [1954] 3 W.L.R. 964, a reference to paragraph 53 of Table A of the Companies Act, 1948, was wrongly given as to Section 53 of the Act.

Contract and Tort—
Standard of Care

At common law a servant could recover damages from his master for injuries caused by the master's negligence, but his action was barred if he himself had contributed to the accident by his own negligence. In order to overcome this injustice the House of Lords in *Caswell* v. *Powell Duffryn Associated Collieries, Ltd.* [1940] 1 A.C. 152, relaxed the standard of care required of workmen: the thoughtlessness or inadvertence of a workman was not necessarily to be regarded as contributory negligence so as to defeat his claim. The Law Reform (Contributory Negligence) Act, 1945, laid down that contributory negligence should no longer bar an action but that the damages should be apportioned according to the fault of each party. The Courts however did not increase the standard of care expected of a workman.

In **Jones *v.* Staveley Iron & Chemical Co., Ltd.** [1955] 2 W.L.R. 69, a workman suffered injuries owing partly to a mistake of his own and partly to a mistake made by a fellow workman, a crane-driver. The trial Judge, applying the test laid down in *Caswell's* case, held that the workman's own mistake did not amount to contributory negligence. He then applied the same test to the mistake of the crane-driver and held that this did not amount to negligence. Thus the workman's action failed.

The Court of Appeal said that the Judge was right in holding that the workman was not guilty of contributory negligence but that he had applied the wrong test to the conduct of the crane-driver. The law expected a higher standard of care from employers than it did from injured workmen. If the employer took the benefit of a machine, he must accept the burden of seeing that it was properly handled. The Court, however, gave a warning that the law should not be carried to extremes in either direction. The standard expected of employers should not be put so high as to make them insurers, and the standard expected of an injured workman should not be put so low as to exempt him from responsibility for his own carelessness.

Executorship Law and Trusts—
Undue Influence

The Courts have long viewed with suspicion settlements under which benefits are conferred by children upon their parents and unless the parents can prove that the settlement was made with complete good faith it will be set aside. In **Bullock *v.* Lloyds Bank, Ltd.** [1955] 2 W.L.R. 1, Vaisey, J., pointed out that this doctrine of undue influence is not confined to cases in which the influence is exerted to secure a benefit for the person exerting it, but extends also to cases in which a person of imperfect judgment is placed or places himself under the direction of one possessing not only greater experience but also such force as that which is inherent in such a relation as a father's to his own child.

On becoming twenty-one B. became absolutely entitled to £12,000 under her mother's will and a month afterwards at the request of her father she executed a settlement of the whole fund upon trust for herself for life with remainder to any children she might have. The settlement was irrevocable except with the consent of the trustee, a bank. Before executing the settlement she received some advice from her father's solicitor but in the Judge's view although the solicitor acted with complete integrity he did not succeed in making B. understand exactly what she was doing. Such a settlement made by a young girl only just of age could only stand if executed under the advice of a competent adviser capable of surveying the whole field with an absolutely independent outlook, who explained to the intending settlor, first, that she could do exactly as she pleased and, second, that the scheme put before her was not to be accepted or rejected out of hand but to be discussed, point by point, with a full understanding of the various alternative possibilities. His Lordship held that B. had not received sufficient advice and he set aside the settlement.

He allowed the bank their full costs but said that any trustee when taking over the property of a young girl just of age would be well advised to make quite sure that the trusts had been constituted in circumstances which left no doubt about their full validity.

Executorship Law and Trusts—
Family Provision

In **Re Makein deceased** [1955] 2 W.L.R. 43, Harman, J., held that an illegitimate child, whether brought up as a member of the family or not, is not a dependant of his father within the meaning of the Inheritance (Family Provision) Act, 1938, as amended by the Intestates Estates Act, 1952.

Insolvency—
Extension of Time for Appeal

In June, 1954, V.'s trustee in bankruptcy rejected the proof of V.'s wife, who claimed to be a creditor. V.'s wife did not appeal against this rejection within the twenty-one days allowed by the Bankruptcy Rules, but she then made

an *ex parte* application to the Registrar for an extension of time for appeal. The Registrar made an order that the time should be extended and the trustee applied to have this order set aside.

In **Re Vanbergen** [1955] 1 W.L.R. 20, the Court of Appeal decided that although it had been the practice for many years that applications for extending the time for appeal should be heard *ex parte*, this practice was wrong. The application should be made upon notice to the trustee. Accordingly the Registrar's order was set aside.

The Court also emphasised that time could only be extended for good cause shown and it was not enough for the applicant merely to show that he was not ready in time.

Miscellaneous—

Accountant's Criminal Offence

In ACCOUNTANCY for January, 1955, at page 35, a note appeared of **Regina *v.* Wake and Stone** in which H. C. Stone was convicted on one count under Section 12 of the Prevention of Fraud (Investments) Act, 1939. The essence of this particular count (count 10) was that he attempted to induce persons generally to buy certain stock by recklessly making a false statement. There were in the indictment other counts on all of which he was acquitted, and one of those (count 8) was that Stone induced one Williams to buy the stock by recklessly making the same false statement as was alleged in count 10. The ground of the appeal was that on the evidence given at the trial Williams had plainly been induced to buy the stock by this false statement and therefore in acquitting Stone on count 8 the jury must have considered that he had not made the false statement recklessly: it followed that the verdict of the jury on count 10 was inconsistent and unreasonable.

The Court of Criminal Appeal said that the burden of showing that the verdict was inconsistent lay upon the appellant. There were a number of possible explanations for the verdict. Looking at all the circumstances the Court was not satisfied that the jury must have been unreasonable in acquitting on count 8 and convicting on count 10. Accordingly the appeal was dismissed.

THE SOCIETY OF Incorporated Accountants

The Functions of Accountants

A DINNER WAS HELD by the Incorporated Accountants' Society of Manchester and District at the Midland Hotel, Manchester, on January 13. The chair was occupied by the President, Mr. Victor A. Bell, F.S.A.A., and the company included the Lord Mayor of Manchester (Alderman Richard S. Harper, J.P.); Councillor Dennis C. Walls (prospective Parliamentary candidate for Accrington); Mr. Bertram Nelson, F.S.A.A., J.P. (President of the Society of Incorporated Accountants); Mr. J. G. Shorrock; Sir Leonard Stone (Vice-Chancellor, County Palatine of Lancaster); The Very Rev. H. A. Jones, B.SC. (Dean of Manchester); the Mayor of Salford (Alderman J. H. Lester, J.P.); Mr. J. H. King, J.P. (General Manager, Williams Deacon's Bank); and representatives of other professional bodies and of the Inland Revenue.

Mr. Victor A. Bell, F.S.A.A. (President of the District Society) proposed the toast of "The city and trade of Manchester and District." He spoke of the great influence which Manchester, as the hub of the great industrial area in South-east Lancashire, had exerted throughout every corner of the world.

The Lord Mayor of Manchester (Alderman Richard S. Harper, J.P.), in responding, said that Manchester was not a city with hundreds of famous names or great men to its credit, but rather a place whose greatness had been built up by ordinary business men.

Mr. J. G. Shorrock also responded to the toast. He said that the ordinary trader felt that one of the most irritating things about life today was that financial jugglery sometimes paid greater dividends than honest work and production. If they were to keep the confidence of the public, accountants ought to spare time from their clients' affairs to considering how that could be remedied.

Mr. Bell presented a prize to Mr. K. P. Bhargava, who, he said, had brought credit to the District Society by obtaining Honours in the Society's Final Examination. Mr. Bhargava was now a member both of the Society and of the Institute of Chartered Accountants.

Councillor Dennis C. Walls (prospective Parliamentary candidate for Accrington, and a former president of the Cinematograph Exhibitors' Association) proposed the toast of The Society of Incorporated Accountants. He said there had been a tendency in certain quarters for accountants to control rather than guide, and that, he thought, was a bad thing. In the cinema industry one organisation had got into difficulties because it had accountants trying to run the business.

Accountants were in a unique position to judge the facts relating to heavy taxation and death duties, and he suggested that the Society would be performing a great public service if it impressed upon the Chancellor of the Exchequer the vital importance of changing the existing law.

Mr. Walls congratulated Mr. Nelson on the success of his pioneer work in the scheme of close co-operation between the universities and the profession, which enabled a student to obtain a degree and at the same time to qualify as an accountant.

Mr. Bertram Nelson (President of the Society of Incorporated Accountants), responding, referred to the problems which arose in an increasingly complex civilisation through the accumulation of information. Many professions were getting over-burdened—for example, a surgeon who desired to specialise might have to master as many as eighteen disciplines and spend eighteen years in the process. As information accumulated, it became increasingly difficult to direct it to the point at which it could be used. The efficiency of British industry (particularly in relation to small and medium-sized businesses) depended to some extent on better methods of circulating information. It might be that the accountancy profession had a special function to perform in this field. On several occasions during the war, the Government desired that information should be widely distributed to industry and commerce and used the accountancy profession for this purpose. In one particular field accountants might have special opportunities to circulate information—on office organisation and method.

One of the best methods of circulating information was the movement of people, not too often or too early, so that, as capabilities increased, they might be fully used. The Appointments Department of the Society was doing particularly good work here. Mr. Nelson had met many members of the Society who had left Manchester and the North and had gone South: accountants from the North seemed to have special abilities which were appreciated in the South. This process should, however, operate in both directions and it was no secret that many industrial undertakings found difficulty in recruiting for the North. That might become serious and perhaps two lessons could be drawn. The first was that

the improvement of the amenities and the appearance of our Northern cities and towns was not a luxury: the progress of business activities in the North depended to a considerable extent on making our cities and towns look more attractive. Secondly, the solution would not come without increasing participation in civic life by leaders of industry who would encourage members of their staffs to share in their faith and enthusiasm.

Mr. Frank O. Wilson, F.S.A.A. (Vice-President of the District Society) proposed the toast of "Our Guests," which was acknowledged by Mr. J. H. King, J.P. (General Manager, Williams Deacon's Bank).

It Pays to Advertise

SIR MILES THOMAS, D.F.C., Chairman of British Overseas Airways Corporation, was the guest speaker at a luncheon held on February 8 by the Luncheon Club of the Incorporated Accountants' London and District Society. The chair was occupied by Mr. S. L. Pleasance, A.S.A.A., Chairman of the District Society.

Sir Miles said that he was neither an advertising man nor an accountant, but he valued highly the services of both. For that reason he had perhaps some qualification to play the part of honest broker between two points of view on the value of advertising in modern society and, in particular, in building and maintaining a commercial enterprise. He understood the doubts of accountants well.

Sir Miles gave some examples of cases in which advertising indisputably paid for itself, not once but many times over.

The first was the launching of a new product or service. Unilever, as Sir Geoffrey Heyworth had said, invested something like £8 million in plant, research and advance expenditure generally, as a preliminary to producing synthetic detergents on the present scale. They also spent around £1 million in promotional advertising over the first year or so and had continued to advertise on a high level ever since. The advertising investment was necessary to pre-fabricate a reasonably assured demand and thus reduce the original risk to sound business proportions.

From a social standpoint, the outlay in advertising had also paid the consumer, because it had enabled a new product to be promoted and perfected so rapidly that it had virtually revolutionised the home laundry and the kitchen sink within about two years. They had already seen, moreover, that the market thus created—and it could not have been created without advertising—had not only justified itself in terms of the original investment, but was now making possible reductions in the retail price of the article through economies in the costs of production. There was an exactly similar situation in the case of margarine.

From his own experience, he would say categorically that if it were not for advertising they could not run an air service on a national scale in this country which would pay its way. Advertising was necessary to build up the service into a paying concern within a reasonable period of years, and then to maintain demand and build it up by making air travel increasing value for money.

Another way in which advertising paid for itself was the building-up of a small business to become a big one. He thought there was no major business today in this country in which development had taken place in peace-time which had not relied very largely on advertising to build the market which had brought about its growth. That was certainly the case with the motor car industry. But for advertising, which made possible the popular car, motoring would still have been a luxury and the preserve of the rich.

Advertising was clearly shown to be "deferred expenditure benefiting the activities of future periods"—a nice rotund phrase which he owed to the Stamp-Martin Professor of Accounting.

Two forms of advertising in which this principle was particularly marked were prestige advertising and technical advertising. In the long run, of course, both, like all advertising, were related to sales. In the short run, they were concerned with making one's name a household word in the circles that mattered and associating it with ideas of the highest possible quality, reliability and the like.

Technical advertising in this country, when judged as a ratio of sales, was still much below the pre-war figure, and had not been rising nearly as rapidly as advertising in general. With the return to a free market, as competition mounted, it would be necessary to step up the volume of technical advertising very considerably. And the time to start thinking about doing so was before the market started slipping, rather than after. Unlike the fertiliser on the farm, which acted quickly on the current crop, advertising had a delayed action—it took time to build up.

There was a time when the attitude of a certain type of firm to advertising was to consider at the end of the year whether there was any money to spare and, if so, to put some of it aside for advertising. He hoped that such an attitude had long since departed from all but a very few British businesses. And he hoped that accountants had played a substantial part in eliminating it.

The only approach to advertising which was worth while was to consider how far the market could be moved, the elasticity of demand, and the best point at which the forces of advertising should be directed to reap the advantage. This entailed close consideration not only of the amount of money needed, but of the way, and the media, in which it could be most economically applied. The size, extent and nature of the appropriation could then be calculated to a degree of accuracy acceptable to accountants.

It was also worth recognising clearly what advertising could and could not do. Here there was still a great deal of research waiting to be done. This was work in which accountants could play a leading, and perhaps decisive part, since it involved a close study of sales and advertising in relation to national income and the current economic climate.

It was, for example, difficult if not useless to attempt to increase sales heavily when the national income was falling. At the same time, they might well find on further research that it would pay to spend money in carefully calculated ways—for example, to keep up public confidence—if, by doing so, one could help to make a recession less severe and recovery quicker.

We could undoubtedly double our standard of living within the next twenty-five years if we continued to expand production at the present rate, even allowing for the realities of capital replacement and depreciation. But the volume of sales we must achieve and the price-policies we should need could not be built unless productive and administrative efficiency and technical skill were combined with skill and enterprise in marketing and with equally high-powered advertising to stimulate and to sustain demand.

There need be no fear that increased use of advertising would debase our culture or lose its essential elements. British advertising would continue to speak with a British accent, and to reflect a European rather than a transatlantic attitude to the values of life. It would not be less efficient on that account, but more efficient. Advertising was Britain's shop window. It was a very vital part of the projection, not only of British goods and skill, but of Britain herself—a projection needed more than ever if we were to win and hold our place among the great nations of the world.

Tax on House Owners

A JOINT MEETING between H.M. Inspector of Taxes Association (Manchester District Centre) and the Incorporated Accountants' Society of Manchester and District was held at the Incorporated Accountants' Hall, Manchester, on December 10 last.

Mr. J. Stewart Oakes, Barrister-at-law, opened a discussion on the Housing Repairs and Rents Act, 1954. He summarised the experience leading up to the Act, which was intended, by providing some increase in rents for landlords, to put them in better economic balance with the rest of the community.

The Act was a turgid and obscure piece of legislation. It applied to dwellings in London only if their gross annual value was under £100, and in the Provinces only if under £75. There were excluded dwellings let after 1939

and those whose rent was in excess of twice the gross rateable value. Virtually, therefore, only dwellings of the working-class type were included. If repairs effected within twelve months of the last fourteen months were equal to or exceeded three times the statutory repair deduction, the rent could be increased to twice the statutory deduction, provided also that the house was in good repair. Application could be made for a "certificate of disrepair": if this were granted, the rent could not be increased until the work had been done, and in addition the 40 per cent. increase granted under the 1920 Act was not payable.

Mr. Stewart Oakes felt that the subsequent discussion on taxation would be largely academic, for there would be very few applications for rent increases under the Act. However, the Act had begun the process of decontrol: houses built or converted after August 30, 1954, were not affected by it, nor did the 1920 Act apply to them.

Mr. G. H. Williams, A.S.A.A., agreed that increases in rent would be limited. He considered that the abolition of Schedule A was now overdue; any loss in tax would be small and would be compensated by administrative economies. Very few owner-occupiers who kept their property in anything like reasonable condition paid Schedule A tax, because their maintenance claims cancelled out the tax. The Schedule A tax on business premises was allowed under Schedule D. Mr. Williams considered that a statement of income and outgoings could be submitted, and tax could be deducted from chief rents and ground rents collected under Schedules D and E. He did not agree with the contention that small property owners were not capable of keeping details of property they owned.

Mr. Cooper, Inspector of Taxes, said that, broadly speaking, the rent increases under the 1954 Act attracted tax either under Schedule A or under the excess rents provisions of Schedule D, subject to maintenance claim relief, if any was due. New calculations would be necessary in all cases. If there was no maintenance relief due before or after the increase, there might be a small amount of tax-free income because of the increase in the statutory repairs allowance.

He felt that simplification would not necessarily follow the abolition of Schedule A. Previous Acts were intended to simplify but turned out to be very complicated.

Mr. N. D. B. Robinson, M.B.E., A.S.A.A., felt that the Act went very little distance towards fulfilling the purpose expressed in its preamble. Further, the last revised assessments had been made as far back as 1937. He strongly supported Mr. Williams's suggestion. He also considered that the restriction to the net annual value of the present maintenance relief was unfair: the excess cost of repairs should be set off against other income.

Mr. Hunt, Inspector of Taxes, said there was no legal reason why tax on ground rent should not be retained other than under Schedule A. One of the conditions for an increase in rent under the Act was that the dwelling should be of a specified standard of fitness of habitation—quite apart from the fact that it had to be in good repair—and it would be necessary for the Inland Revenue to check whether or not any improvements that were essential because of this clause had been included in maintenance claims. He pointed out that the increase in charge for providing services would attract additional tax by additional Case VI assessments.

Mr. Stewart Oakes said that rent could now be split between the actual rent and the cost of services and the Local Rent Tribunals could increase the rent payable for cost of services.

Mr. Domville, Inspector of Taxes, said that many of his colleagues had considered what would be the effect of abolishing Schedule A, but it seemed from the claims put in that very few property owners were spending enough in repairs to justify the abolition of Schedule A. He pointed out that Schedule A on an owner-occupier was not really a tax on income.

Council Meeting

JANUARY 26, 1955

Present: Mr. Bertram Nelson (President), Sir Richard Yeabsley (Vice-President), Sir Frederick Alban, Mr. F. V. Arnold, Mr. Edward Baldry, Mr. C. Percy Barrowcliff, Mr. R. Wilson Bartlett, Mr. C. V. Best, Professor F. Sewell Bray, Mr. Henry Brown, Mr. W. F. Edwards, Mr. M. J. Faulks, Mr. Alexander Hannah, Mr. L. C. Hawkins, Mr. C. A. G. Hewson, Mr. J. A. Jackson, Mr. Hugh O. Johnson, Mr. C. Yates Lloyd, Mr. F. A. Prior, Miss P. E. M. Ridgway, Mr. P. G. S. Ritchie, Mr. W. G. A. Russell, Mr. R. E. Starkie, Mr. Richard A. Witty.

The Late Mr. T. H. Nicholson and the Late Mr. T. Harold Platts

The President paid tribute to the work for the Society of the late Mr. T. H. Nicholson and the late Mr. T. Harold Platts.

After standing in silence for a minute the Council adopted the following resolutions:

(1) The Council record with deep regret the death on December 3, 1954, of MR. T. H. NICHOLSON, FELLOW, who had been a member of the Society for thirty-five years and a member of the Council for five years. The Council recall with gratitude MR. NICHOLSON'S record of service to the Society and also his service in public life. The Council extend to Mrs. Nicholson and her family their deepest sympathy in their bereavement.

(2) The Council record with deep regret the death on November 30, 1954, of MR. T. HAROLD PLATTS, FELLOW, who had been a member of the Society for thirty-six years and a member of the Council from 1940 to 1951. The Council recall with gratitude MR. PLATTS' record of service to the Society and extend to Mrs. Platts their deepest sympathy in her bereavement.

Honours

The Council congratulated Mr. E. Cassleton Elliott on his appointment as a Commander of the Order of the British Empire for his services as Chairman of the Inter-Departmental Committee on Distribution of Remuneration of General Practitioners. Sir Frederick Alban was congratulated on his election as a Vice-President of the Chartered Institute of Secretaries.

Reports of Committees

The Council received the minutes of recent meetings of the Finance and General Purposes, Examination and Membership, and Company Law and Practice Committees.

The President reported on a joint meeting of the Co-ordinating Committee and the Accountants' Joint Parliamentary Committee, and on an informal meeting with Presidents and Honorary Secretaries of District Societies.

Endorsement of Cheques

The Council considered a letter from Mr. R. Graham Page, M.P., and approved a reply. (See pages 99-101 of this issue.)

Disciplinary Committee

It was reported that consideration had been given by the Disciplinary Committee at a meeting held on January 19, 1955, to the circumstances in which Mr. Hubert Clive Stone, Fellow, London, had been convicted and been ordered to pay a fine of £200 on an indictment that he had attempted to induce persons to enter into agreement for, or with a view to, acquiring 4½ per cent. First Mortgage Debenture Stock 1970/81 issued by Wake & Dean Ltd., by recklessly making a statement which was misleading, false or deceptive. The Council took note that the Committee were of opinion that Mr. Stone had been guilty of conduct discreditable to a member of the Society and that the Committee had unanimously resolved, under the provisions of Article 32, that Mr. Stone be suspended from the exercise of all rights and privileges of a member for a period of one year.

Council

The resignation of Mr. C. A. G. Hewson from the Council was received with regret, and a warm vote of thanks was accorded to Mr. Hewson for his services to the Council and the Society.

Membership

The Council approved applications for admission to membership of the Society, for election to Fellowship, and for registration as members in retirement.

Resignations

The resignations of the following members were reported: COULTHURST, Jeshuran Lawrence (Associate), Liverpool; EMMANS, Robert Jesse Fold (Fellow), Kingston-on-

Thames; HORRIDGE, Herbert William, O.B.E., (Associate), Purley; MAINSTONE, Rowland (Fellow), Chesterfield; PEACOCK, Alfred Holden (Fellow), Kingston-on-Thames; TURTON, Peter (Associate), Newcastle-upon-Tyne.

Deaths

The Council received with regret a report of the death of each of the following members:

COLESWORTHY, Henry Edward (Fellow), Guildford; HAINES, Frank (Associate), West Wickham; HANDEL, Fred (Associate), London; LORD, Samuel (Fellow), Chobham; MALLINSON, Archibald (Associate), Sheffield; NICHOLSON, Thomas Holme, O.B.E., (Fellow), London; NORFOR, Frank Frederick (Associate), Sydney, New South Wales; OGLE, Homfray (Associate), London; PERERA, Tudor Vincent (Fellow), Colombo; PLATTS, Thomas Harold (Fellow), Droitwich Spa; POCOCK, Bernard George (Associate), London; RHODES, William Herbert (Fellow), Leicester; ROGERS, Thomas (Associate), London; THOMSON, Robert Collier (Fellow), Dundee; WALKER, Owen (Fellow), London; WARREN, Charles Mortimer (Associate), Lancing, Sussex; WEBSTER, William (Fellow), Peterhead; WEST, Henry Walter (Fellow), London.

Events of the Month

March 1.—*London:* "Regulating the Level of Stocks," Stamp-Martin Seminar opened by Mr. A. R. Ilersic, M.SC.(ECON.), B.COM. Incorporated Accountants' Hall, W.C.2, at 6 p.m.
Shrewsbury: "Excess Rents and Management and Maintenance Expense Claims," by Mr. K. S. Carmichael, A.C.A. Raven Hotel, at 6.30 p.m.

March 2.—*Coventry:* "Executorship Accounts," by Mr. K. S. Carmichael, A.C.A. Hare and Squirrel Hotel, Old Cheylesmore, at 6.15 p.m.
Hull: Luncheon Meeting. Regal Room, Ferensway, at 1 p.m.

March 3.—*Bristol:* "Verification of Assets," by Mr. A. E. Langton, LL.B., F.C.A. F.S.A.A. Royal Hotel, College Green, at 6.30 p.m.
Cardiff: "The Bills of Exchange Act," by Mr. Hywel ap Robert, M.A. Students' meeting. Temple of Peace and Health, Cathays Park, at 6.45 p.m.
London: "Partnerships and Companies Compared and Contrasted," by Mr. C. H. Beaumont, Barrister-at-Law. For new members of the Students' Society. Incorporated Accountants' Hall, W.C.2, at 5.30 p.m.
Oxford: "Executorship," by Mr. V. S. Hockley, A.C.A., A.A.C.C.A. Joint students' meeting. George Restaurant, George Street, at 6.30 p.m.
Wolverhampton: "Excess Rents and Management and Maintenance Expenses Claims," by Mr. K. S. Carmichael, A.C.A. Molineaux Hotel, at 6.15 p.m.

March 4.—*Birmingham:* "Schedule E—Assessment and Collection of Tax," by Mr. E. L. Cowell, H.M. Inspector of Taxes, of the Inland Revenue Training Centre, Edgbaston. Law Library, Temple Street, at 6.15 p.m.
Bradford: "Interpretation of Accounts," by Mr. A. C. Simmonds, F.S.A.A. Liberal Club, Bank Street, at 6.15 p.m.
Cambridge: "Gas Production Costs," by Mr. J. E. Hardy, A.S.A.A. Shirehall, at 7 p.m.
Glasgow: Students' meeting. Christian Institute, 70 Bothwell Street, at 5.45 p.m.
Leicester: Quiz. Panel of Inspectors of Taxes and Accountants. In conjunction with the Leicester Law Society and the Leicester Society of Chartered Accountants. Balmoral Room, Bell Hotel, at 6 p.m.
Manchester: "Costing," by Mr. S. C. Roberts, F.C.W.A., M.I.I.A. Students' meeting. Incorporated Accountants' Hall, at 6 p.m.

March 5.—*Liverpool:* "Schedule D, Cases I and II," by Mr. A. M. Lerman, A.S.A.A. For Intermediate students. Liverpool Incorporated Accountants' Hall, 25 Fenwick Street, 2, at 10.30 a.m.

March 7.—*Bedford:* "Branch Accounts," by Mr. K. S. Carmichael, A.C.A. Students' meeting. Embankment Hotel, at 6.15 p.m.
London: "The Interpretation of a Balance Sheet," by Mr. A. C. Simmonds, F.S.A.A. Students' meeting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

March 8.—*Bournemouth:* Cost Accounts lecture, in conjunction with the Cost of Works Accountants' District Society. St. Peter's Hall, Hinton Road, at 6.30 p.m.
Dublin: "Death Duties," by Mr. R. I. Morrison, A.C.A. Students' meeting. Jury's Hotel, Dame Street, at 6.15 p.m.
Dudley: "Arbitrations and Awards," by Mr. C. H. Beaumont. The Dudley and Staffordshire Technical College, The Broadway, at 7 p.m.
Leeds: "The Convertibility of Sterling," by Professor J. H. Richardson, M.A., PH.D. Jacomelli's Restaurant, Boar Lane, at 6.15 p.m.

March 9.—*London:* Taxation group meeting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.
Southampton: Cost Account lecture in conjunction with the Cost of Works Accountants' District Society. Polygon Hotel, at 6.30 p.m.

March 10.—*Hanley:* "Consolidated Accounts," by Mr. P. E. Harris, A.S.A.A. Students' meeting. Town Hall, at 7 p.m.
King's Lynn: "The Finance Act, 1954," by Mr. Harold Hudson, F.S.A.A., A.C.I.S. Duke's Head Hotel, at 7 p.m.
London: A Case Study discussion on an investment proposal involving cost calculations and alternative proposals. Stamp-Martin seminar opened by Professor H. F. Craig, Assistant Professor of Business Administration, Harvard Graduate School of Business Administration.
Portsmouth: Cost Account lecture, in conjunction with the Cost and Works Accountants' District Society. Central Library, at 6.30 p.m.

March 11.—*Birmingham:* "Group Accounts," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A. Law Library, Temple Street, at 6.15 p.m.
Cardiff: Dinner. Park Hotel, at 7 p.m.
Hull: "Budgetary Control and Short-term Financial Statements," by Mr. L. C. Hawkins, F.S.A.A. Students' meeting. Church Institute, Albion Street, at 6.15 p.m.
Leicester: "Banking Practice and the Business World," by Mr. N. H. Chadwick, A.I.B. Students' meeting. Victoria Hotel, Granby Street, at 6 p.m.
Manchester: "Costing," by Mr. S. C. Roberts, F.C.W.A., M.I.I.A. Students' meeting. Incorporated Accountants' Hall, at 6 p.m.
Nottingham: "Topical Problems for Accountants," by Mr. R. Glynne Williams, F.C.A., F.T.I.I. Reform Club, Victoria Street, at 6.30 p.m.
Swansea: "Great Britain's Economic Position," by Mr. Ralph Curtis, M.SC., PH.D., F.C.I.S. Mackworth Hotel, at 7 p.m.

March 12.—*Liverpool:* "Standard Costs Accounting," by Mr. F. W. Frodsham, A.S.A.A., A.C.W.A. For Final students. Liverpool Incorporated Accountants' Hall, 25 Fenwick Street, 2, at 10.30 a.m.

March 14.—*Bradford:* "The Convertibility of Sterling," by Professor J. H. Richardson, M.A., PH.D. Liberal Club, Bank Street, at 6.15 p.m.
Carlisle: "Profits Tax," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A. County Hotel, at 6.30 p.m.
London: "Investment Policy for the Small Investor," by Mr. Patrick Legge, member of the Council of the Stock Exchange. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

March 15.—*Sheffield:* "Group Accounts," by Mr. K. S. Carmichael, A.C.A. Students' meeting. Grand Hotel, at 4 p.m. and 6 p.m.

March 16.—*Coventry:* "The Law and Practice of Liquidations," by Mr. Spencer G. Maurice, Barrister-at-Law. Hare and Squirrel Hotel, Old Cheylesmore, at 6.15 p.m.
Newcastle-upon-Tyne: "Income Tax Developments since the Income Tax Act, 1952," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A. The Library, 52 Grainger Street, at 6.15 p.m.
Worcester: "The Accountancy Provisions of the Companies Act, 1948," by Mr. H. Hudson, F.S.A.A., A.C.I.S. Crown Hotel, at 6.15 p.m.

March 17.—*Cardiff:* "Liquidators' Accounts," by Mr. A. E. Langton, LL.B.,

F.C.A., F.S.A.A. Students' meeting. Temple of Peace and Health, Cathays Park, at 6.45 p.m.
London: "The Object and Purpose of a Will," by Mr. E. R. L. North. Lecture for new members of the Students' Society. Incorporated Accountants' Hall, W.C.2, at 5.30 p.m.

March 18.—*Birmingham:* "The Management Accountant in Industry," by Mr. H. H. Norcross, F.C.W.A. Joint meeting. Chamber of Commerce, New Street, at 6.30 p.m.
Bristol: Mock Income Tax Appeal. The Royal Hotel, College Green, at 6.30 p.m.
Glasgow: "Stock Exchange Practice," by Mr. Alan M. Macauley. Students' meeting. Room F, Christian Institute, 70 Bothwell Street, C.2, at 5.45 p.m.
Leicester: Informal meeting. Windsor Room, Bell Hotel, at 6.15 p.m.
Manchester: "Costing," by Mr. S. C. Roberts, F.C.W.A., M.I.I.A. Students' meeting. Incorporated Accountants' Hall, at 6 p.m.
Sheffield: "Estate Duties and Controlled Companies," by Mr. P. Shelbourne, Barrister-at-Law. Grand Hotel, at 5.45 p.m.
Waterford: "Applied Costing," by Mr. W. W. Bigg, F.C.A., F.S.A.A. Students' meeting. Offices of Messrs. W. A. Deevy & Co., at 8 p.m.

March 19.—*Liverpool:* "Counter Attractions by a Banker," by Mr. Roy Towers, Midland Bank, Ltd. Students' meeting. Liverpool Incorporated Accountants' Hall, 25 Fenwick Street, 2, at 10.30 a.m.

March 21.—*London:* "Consolidated Accounts (I)," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A. Students' meeting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.
Luton: "Banks and their Balance Sheets," by Mr. A. E. Tompsett. Students' meeting, followed by annual general meeting of the Luton and Bedford Branch of the Students' Society of London. George Hotel, at 6.15 p.m.

March 22.—*Blackpool:* "Modern Costing Techniques," by Mr. S. C. Roberts, F.C.W.A., M.I.I.A. Jenkinson's Café, Talbot Square, at 7.30 p.m.
Dublin: "Auditing Examination Questions," by Mr. W. W. Bigg, F.C.A., F.S.A.A. Students' meeting. Jury's Hotel, Dame Street, at 6.15 p.m.
London: Luncheon Club meeting. "Present Day Problems of Broadcasting and Television," by Mr. Raymond Glendenning, B.COM., A.S.A.A. Connaught Rooms, at 12.45 for 1 p.m.
London: Society of Incorporated Accountants: dinner. Incorporated Accountants' Hall, W.C.2, at 7 p.m.
Newcastle-upon-Tyne: "Share Valuation," by Mr. R. Glynne Williams, F.C.A., F.T.I.I. The Library, 52 Grainger Street, at 6.15 p.m.

March 23.—*Belfast:* Luncheon meeting. Talk by Mr. W. W. Bigg, F.C.A., F.S.A.A. Kensington Hotel, College Square East, at 1 p.m.
Belfast: "Auditing," by Mr. W. W. Bigg, F.C.A., F.S.A.A. Students' meeting. 13 Donegall Square West, at 7 p.m.
Middlesbrough: "Executorship Law," by Mr. R. Glynne Williams, F.C.A., F.T.I.I. Café Royal, Linthorpe Road, at 6.30 p.m.

March 25.—*Birmingham:* "Practical Banking Explained," by Mr. T. E. Hurst, District Manager of Lloyds Bank, Ltd. Law Library, Temple Street, at 6.15 p.m.
Bradford: Dinner. Midland Hotel, at 6.15 p.m.
Brighton: "Executorship Accounts," by Mr. P. E. Harris, A.S.A.A. Students' meeting. Royal Pavilion Hotel, Castle Square, at 5 p.m.
Coventry: "The Stock Exchange," by Mr. B. W. Stephenson. Hare and Squirrel Hotel, Old Cheylesmore, at 6.15 p.m.
Manchester: "Management Accounting," by Mr. H. H. Norcross. Joint meeting. Incorporated Accountants' Hall, at 6 p.m.
Norwich: Inspection of mechanised accounting installation, Eastern Electricity Board, Norfolk Sub-Area, with explanatory talk by Mr. L. W. Jordan, A.S.A.A., Accountant to the Board. Board's Offices, Duke Street, at 7 p.m.
Sheffield: "The Redemption of Shares and Debentures," by Mr. R. J. Carter, B.COM., F.C.A. Students' meeting. Grand Hotel, at 5.30 p.m.

March 26—*Liverpool:* "Losses under Schedule D, Cases I and II," by Mr. D. Hackston, H.M. Inspector of Taxes. For Final students. Liverpool Incorporated Accountants' Hall, 25 Fenwick Street, 2, at 10.30 a.m.

March 28.—*London:* "Consolidated Accounts (II)," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A. Students' meeting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.
Luton: Students' dinner. Royal Hotel.
Northampton: Luncheon meeting. "The Provision of Finance for Estate Duty," by Mr. A. R. English, of Industrial and Commercial Finance Corporation, Ltd.

March 29.—*Leeds:* "Estate Duty and Controlled Companies," by Mr. R. Shelbourne, Barrister-at-Law. Jacomelli's Restaurant, Boar Lane, at 6.15 p.m.

March 30.—*Liverpool:* Students' hot-pot supper. Cross Keys Hotel, Earle Street.
London: Management group meeting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

March 31.—*Cardiff:* Brains trust. Students' meeting. Temple of Peace and Health, Cathays Park, at 6.45 p.m.
London: "Income Tax Returns," by Mr. J. D. Nightingirl, A.S.A.A. Lecture for new members of the Students' Society. Incorporated Accountants' Hall, W.C.2, at 5.30 p.m.
Oxford: Students' evening. George Restaurant, George Street, at 6.30 p.m.
Taunton: "Recent Developments in Taxation," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A. Castle Hotel, at 6.30 p.m.
Swansea: "Standard Costing and Budgetary Control," by Mr. V. S. Hockley, B.COM., C.A., A.A.C.C.A. Students' meeting. Central Public Library, Alexandra Road, at 7 p.m.
Swindon: "Verification of Certain Assets," by Mr. R. Davis, F.S.A.A., F.C.I.S.

April 1.—*Bristol:* "Standard Costs and Budgetary Control," by Mr. V. S. Hockley, B.COM., A.C.A., A.A.C.C.A. Royal Hotel, College Green, at 6.30 p.m.
Glasgow: Students' Study Circle meeting. Christian Institute, 70 Bothwell Street, C.2, at 5.45 p.m.
Leicester: "Auditing Case Law," by Mr. R. W. Moon, B.LITT., A.C.A. Students' meeting. Victoria Hotel, Granby Street, at 6 p.m.
Manchester: Mock Appeal, following Students' annual general meeting. Incorporated Accountants' Hall. Mock appeal at 6 p.m.

April 2.—*Liverpool:* "Preparation of an Estate Duty Account," by Mr. C. O. Reay, F.C.A. For Intermediate students. Liverpool Incorporated Accountants' Hall, 25 Fenwick Street, 2, at 10.30 a.m.

April 4.—*Luton:* "Bankruptcy Statement of Affairs," by Mr. P. E. Harris, A.S.A.A. Students' meeting. George Hotel, at 6.15 p.m.

April 5.—*Hull:* Students' joint meeting. Y.P.I., George Street.

April 6.—*Belfast:* Students' visit to Gallaher, Ltd., tobacco factory.
Hull: Luncheon meeting. Regal Room, Ferensway, at 1 p.m.
Middlesbrough: "Bankruptcy," by Mr. T. G. Sparrow, Deputy Official Receiver. Café Royal, Linthorpe Road, at 6.30 p.m.

District Societies and Branches

Irish Branch

AT THE INVITATION of the President, Mr. R. L. Reid, members of the Council of the Society of Incorporated Accountants in Ireland were present at a Luncheon in Jury's Hotel, Dublin, on January 20, when a presentation of a silver cigarette box was made to Mr. A. H. Walkey to mark the occasion of his recent marriage.

Mr. R. J. Kidney, in making the presentation, referred to Mr. Walkey's long and continued service to the Society in Ireland. He conveyed the best wishes of the members of the Council to Mr. and Mrs. Walkey for their future happiness. Mr. Walkey replied, and tributes to him were paid by other members of the Council.

London

A VERY SUCCESSFUL dinner-dance, at which

the President of the parent Society (Mr. Bertram Nelson) and Mrs. Nelson were present, was held at the Hyde Park Hotel on January 28 for members of the London District Society and their guests. The Chairman, Mr. S. L. Pleasance, proposed the toast of the guests, to which, in a short, charming speech, Mrs. Nelson responded.

Manchester

A STUDENTS' REFRESHER course will be held at Hulme Hall, Victoria Park, Manchester, from Friday, April 15, to the morning of Monday, April 18.

The charge to each student, including full board, is £3 5s. Students from any part of the country will be welcomed: they should apply through their own Honorary Secretary.

The lecturers include Mr. Arthur T. Eaves, F.S.A.A.; Mr. C. C. Hunt, Inspector of Taxes; Mr. A. R. Ilersic, M.SC.(ECON.), B.COM.; Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A.; Mr. J. Stewart Oakes, Barrister-at-Law; and Mr. S. C. Roberts, F.C.W.A., M.I.I.A. There will be separate lectures for Intermediate and Final candidates.

Examinations—May 1955

THE SOCIETY'S EXAMINATIONS will be held on the following dates:

Preliminary	May 10 and 11, 1955
Intermediate	May 12 and 13, 1955
Final: Part I	May 10 and 11, 1955
Part II	May 12 and 13, 1955

The centres will be Belfast, Birmingham, Cardiff, Dublin, Glasgow, Leeds, Liverpool, London, Manchester, Newcastle upon Tyne and Southampton.

Completed application forms together with all the relevant supporting documents and the fee (Final, Part I, £4 4s; Part II, £4 4s; Parts I and II together, £7 7s; Intermediate, £4 4s; Preliminary, £3 3s) must reach the Secretary at Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London W.C.2, not later than Monday, March 14, 1955.

Candidates are asked to obtain application forms from the Honorary Secretary of their Branch or District Society.

Personal Notes

Messrs. Levett, Charles & Co., London, S.E.12, advise us that Mr. Bernard Levett, F.A.C.C.A., has retired from the firm. The practice is being continued under the same name and from the same address by the remaining partner, Mr. A. W. Charles, Incorporated Accountant.

Mr. Sidney J. A. Forsythe, A.S.A.A., has been appointed secretary to W. H. Alexander, Ltd., Belfast.

Mr. Charles C. Downing, A.S.A.A., has resigned from the partnership of Messrs. Turquand, Downing & Co., Incorporated Accountants, and has taken up an appointment as chief accountant to A. M. Davis & Co., Ltd., London, N.1.

The partnership between Mr. S. J. Wilkes, F.S.A.A., and Mr. T. P. Carter, F.A.C.C.A., under the name of Griffin & Co. has been dissolved. Mr. Wilkes has been joined by Mr. T. L. Mollard, F.S.A.A., who formerly practised in Oldbury, and their joint practice is being conducted under the style of Griffin & Co., Incorporated Accountants, at Daimler House, 33 Paradise Street, Birmingham, 1.

Mr. J. S. Fletton, A.S.A.A., has been appointed secretary/accountant to Christian Dior, Ltd., London, W.1.

Messrs. Farr, Rose & Gay, Incorporated Accountants, London, E.C.2, have taken into partnership Mr. R. M. Filer, A.C.A., A.S.A.A., who has been associated with them for eighteen months. The style of the firm is unchanged.

Mr. George C. Wilkinson, Incorporated Accountant, Middlesbrough and Redcar, announces that Mr. J. C. Proudler, A.S.A.A., who has been a member of the Redcar staff for some time, has now joined him in partnership. The firm name is George C. Wilkinson & Co. The Middlesbrough office has been removed to South House, 136 Borough Road, Middlesbrough.

Removals

Mr. O. Collins, Incorporated Accountant, announces that his address is now 117 Hagley Road, Edgbaston, Birmingham, 16.

Messrs. Saunders, Daffarn & Saunders, Incorporated Accountants, have removed their offices to 48 Gresham Street, London, E.C.2.

Obituary

Kenneth Charles Myburgh Hands

WE HAVE RECEIVED with deep regret news of the death of Mr. K. C. M. Hands, B.A., C.A.(S.A.), F.S.A.A., Cape Town, who for the last twenty years has rendered distinguished service as a member of the Committee of the South African (Western) Branch of the Society of Incorporated Accountants.

Mr. Hands became a member of the Society in 1924, after serving articles with his father, the late Sir Harry Hands, K.B.E., F.S.A.A., a former Chairman of the Western Branch. In the following year he was admitted to partnership in Messrs. Hands & Shore, and at the time of his death he was senior partner.

Owen Walker

WE REGRET TO record the death on December 30 of Mr. Owen Walker, F.S.A.A., senior partner in Messrs. Painter, Mayne & Walker, Incorporated Accountants, London, E.C.4.

Mr. Walker became a member of the Society of Incorporated Accountants in 1906, after attaining Honours in the Final Examination. He had served his articles with the late Mr. E. R. Painter, F.S.A.A., who was one of the original members of the Society at its incorporation. He was admitted to partnership in 1907, when the firm of Painter & Mayne became Painter, Mayne & Walker.

The practice is now being continued by the remaining partners, Mr. A. C. Gillman, F.S.A.A., Mr. H. W. Mayhew, F.S.A.A., and Mr. A. N. Gillman, A.S.A.A., A.C.A.

War Damage to British Property in French Oversea Territory

The French Government has agreed to treat British nationals equally with French nationals in awarding compensation for loss or damage resulting from the Second World War to property in French territories overseas. The same treatment will be extended to any corporation or association in which French and British interests together constitute a majority holding or control. British nationals must apply direct to the French authorities not later than December 10, 1955.

Management and Modernisation Conference

Management and Modernisation has been chosen as the theme of the second North-Western Management Conference, to be held in Southport on March 18 and 19. The conference is organised by the British Institute of Management and the Blackburn, Manchester, Merseyside and Warrington branches of the Institute of Industrial Administration, in association with the Merseyside and Manchester branches of the National Union of Manufacturers, and with the support of the North-Western Regional Council of the Federation of British Industries.

The opening address will be given by Sir Charles Goodeve, O.B.E., Director of the British Iron and Steel Research Association. Subjects considered at later sessions will be *Putting Financial Surpluses to Work; Some Management Implications of Automation; Taking the Pulse of Your Market; The New Situation—How Shall We Train Our Managers?; Equipment for Varied Demand—the Need of the Smaller Company;* and *The Human Problems of Modernisation.*

Classified Advertisements

Two shillings and sixpence per line (average seven words). Minimum ten shillings. Box numbers one shilling extra. Replies to Box Number advertisements should be addressed Box No. . . . , c/o ACCOUNTANCY, *Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2, unless otherwise stated. It is requested that the Box Number be also placed at the bottom left-hand corner of the envelope.*

APPOINTMENTS VACANT

THE SOCIETY'S APPOINTMENTS REGISTER
Employers who have vacancies for Incorporated Accountants on their staffs and also members seeking new appointments are invited to make use of the facilities provided by the Society's Appointments Register. No fees are payable. All enquiries should be addressed to the Appointments Officer, Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2. Tel. Temple Bar 8822.

ACCOUNTANT. The Eastern Regional Development Corporation with headquarters in Enugu, Nigeria, requires a qualified Accountant with experience in and knowledge of consolidated accounts and budgetary control. The Corporation controls amongst other projects, plantations, a cattle ranch, a boatyard and secondary industries are contemplated. Excellent opportunity for enterprising man who appreciates interesting and varied work, including visiting the plantations, etc. Age 30–45. Initial salary £1,200 to £1,600 according to experience. Provident Fund contributions, employer 12½%, employee 10% of salary. Outfit allowance of £80. Car allowance. Free quarters with hard furnishings. Contract for two tours of 18 months each with 16 weeks' leave on full pay after each tour; renewable. Free passages for wife and two children under 18. Alternatively if children remain in U.K., allowance of £75 per child per annum. Application forms obtainable from The Nigeria Office, 5 Buckingham Gate, London, S.W.1. Completed forms in duplicate returnable to the Nigeria Office not later than March 10. Mark correspondence E.R.D.C.

ACCOUNTANT required by the GOVERNMENT of the NORTHERN REGION, NIGERIA, for the Treasury for one tour of 15–24 months in the first instance. Salary etc. according to experience in scale (*a*) £750 rising to £1,480 a year with prospect of permanency; or (*b*) £807 rising to £1,631 a year, on contract with gratuity of £100/£150 a year. Outfit allowance £30/£60. Free passages for officer and wife. Assistance towards cost of children's passages or up to £150 annually for maintenance in U.K. Candidates between 23 and 35 should be members of a recognised body of professional accountants or have good experience with a firm of Accountants, a Bank or in Accounts Branch of a Government Department, Municipality or Public Company. Write to the CROWN AGENTS, 4 Millbank, London, S.W.1. State age, name in block letters, full qualifications and experience and quote M1B/33879/AD.

ACCOUNTANT or **SALESMAN—BURROUGHS**—leading manufacturers and distributors in Great Britain of their wide range of figuring equipment from simple adding to complex accounting, require one or two men aged 25–30 to contact business executives. Previous selling experience not essential. Substantial starting salary, extensive training programme. Pension benefits. This is a splendid opportunity to progress in a progressive Company. Apply in writing, giving full details, to—Personnel Director, BURROUGHS ADDING MACHINE LIMITED, Avon House, 356–366 Oxford Street, London, W.1. (Ref. A.14.) Interviews will be arranged at the nearest Burroughs Branch.

ACCOUNTANT, young, preferably qualified, for professional office in NAIROBI. Salary £840 p.a. initially, rising £60 p.a., bonus, pension and medical schemes, 4 months paid home leave. Send brief details to BOX 67/2, OVERSEAS TECHNICAL SERVICE, 5 Welldon Crescent, Harrow.

AUDIT Assistant Senior or Semi-Senior required by City Chartered Accountants. Apply stating age, experience and salary required to Box 715, c/o WALTER JUDD LTD., 47 Gresham Street, London, E.C.2.

ACCOUNTANT required by the NIGERIAN COAL CORPORATION for two tours each of 15–24 months in first instance. Commencing salary according to experience in salary scale (including expatriation pay) £1,090 rising to £1,480 a year. Gratuity payable at rate of 22% of total gross salary drawn during each tour. Outfit allowance £60. Free passages for officer and wife. Assistance towards cost of children's passages or grant up to £150 annually for maintenance in U.K. Candidates must be members of a recognised body of professional accountants and have a sound knowledge of wages analysis and payment, costing and stores control accounting. Write to the Crown Agents, 4 Millbank, London, S.W.1. State age, name in block letters, full qualifications and experience and quote M1B/34868/AD.

ACCOUNTANTS required by the GOVERNMENT OF THE NORTHERN REGION, NIGERIA, for the PUBLIC WORKS DEPT., for one tour of 15–24 months with prospect of permanency. Commencing salary according to experience in Salary scale (including expatriation pay) £750 rising to £1,480 a year. Outfit allowance £30/£60. Free passages for officer and wife. Assistance towards cost of children's passages or grant up to £150 annually for maintenance in U.K. Liberal leave on full salary. Candidates must have had at least five years accountancy experience including budgetary control with a large firm of Public Works Contractors or a Municipality. They must have organising ability and also be able to control staff. Membership of one of the recognised bodies of professional accountants an advantage. Write to the CROWN AGENTS, 4 Millbank, London, S.W.1. State age, name in block letters, full qualifications and experience and quote M1B/34874/AD.

CITY Chartered Accountants have vacancies for semi-senior and senior audit clerks, including those recently qualified. Write stating experience and salary required to Box No. 118, c/o ACCOUNTANCY.

CITY FIRM OF CHARTERED ACCOUNTANTS require for their Trust Department the services of a CLERK well experienced in Trust and Executorship Accounts, with some knowledge of Taxation. Kindly apply in own handwriting giving precise details of experience, age and salary required to Box A.Y.891, c/o 191 Gresham House, E.C.2.

EUROPEAN Chartered or Incorporated Accountant required for European Company in India. Initial agreement three years with six months leave on completion. Commencing salary Rs. 1550 per month, marriage allowance Rs. 400 per month where applicable. First class passages. Write with copy references to Box ZZ.961, DEACON'S ADVERTISING, 36 Leadenhall Street, London, E.C.3.

MEAT importing and distributing company requires Accountant with experience of the industry to reorganise and control trading accounts section in London Head Office. Good salary and excellent prospects. Superannuated. Write to Box No. 7059, c/o White's Ltd., 72–78 Fleet Street, E.C.4.

PEAT, MARWICK, MITCHELL & CO. have vacancies in their Leeds and Bradford offices for young Qualified Accountants. Excellent salary, prospects and experience. Apply with full particulars to 2 Park Place, Leeds 1.

SECRETARY/ACCOUNTANT required by the NYSALAND COTTON MARKETING BOARD for one tour of 2 to 3 years with prospect of permanency. Salary scale (including present temporary allowance of approximately 13% of salary) £887 rising to £1,197 a year. Commencing salary according to experience. Outfit allowance £50. Free passages and quarters. Liberal leave on full salary. Pension scheme. Candidates, not under 25, must have had several years' good experience of accountancy and secretarial practice. Members of one of the recognised bodies of professional accountants will be preferred. Write to the CROWN AGENTS, 4 Millbank, London, S.W.1. State age, name in block letters, full qualifications and experience and quote M1B/34800/AD.

PRICE WATERHOUSE & CO. have vacancies in their Birmingham office for young newly-qualified accountants wishing to widen their experience. Apply in writing to Cavendish House, 41, Waterloo Street, Birmingham, 2.

QUALIFIED ACCOUNTANT required for post in the Middle East preferably with a knowledge of Public Works contracting and language. Good basic salary. Accommodation provided. Write 0529, WM. PORTEOUS & CO., Glasgow.

SECRETARY AND CHIEF ACCOUNTANT required by the CYPRUS INLAND TELECOMMUNICATIONS AUTHORITY for 6 years in the first instance. Salary £2,000 a year. Gratuity payable at rate of £150 a year. Free furnished quarters. Free passages. Liberal leave on full salary. Candidates, preferably under 40 years of age, must be members of a recognised body of professional accountants and have administrative experience with a public authority or large commercial undertaking. Experience of commercial and engineering accounting work in telecommunications an advantage. Write to the CROWN AGENTS, 4 Millbank, London, S.W.1. State age, name in block letters, full qualifications and experience and quote M1B/34999/AD.

THE MILK MARKETING BOARD are seeking young Accountants aged under 30, with the following qualifications, A.C.A., A.S.A.A., A.A.C.C.A. Vacancies will be initially in the Audit Department at Thames Ditton. Excellent salary and prospect that suitable candidates will progress to Senior appointments in the Accounts Division. Pension Scheme. Excellent Sports and Social Club. Applications, in writing, giving details of qualifications to Establishment Officer, MILK MARKETING BOARD, Thames Ditton, Surrey.

PRACTICES AND PARTNERSHIPS

INCORPORATED Accountant, age 45, fully experienced in the Profession, recently in Commerce, desires to purchase a partnership in an established Professional firm in Southern Counties. Box No. 119, c/o ACCOUNTANCY.

PUBLICATIONS

POCKET PUBLICATIONS giving the meat of each subject. *Cost Accounts*, 40 pp., 2s 9d; *Partnership Accounts*, 60 pp., 3s 9d; *Examination Notes on Bankruptcy*, 28 pp., 2s; *Mercantile Law*, 32 pp., 2s; *Seven Day Course in Economics*, 52 pp., 2s 9d; *Elementary Accounts*, 3s 9d; *General Accounts*, 3s 9d—R. A. STARNES, F.C.I.S., 32 (ex 26) Essenden Road, St Leonards-on-Sea, Sussex.

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